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Savings Bank Journal

December 1982

Official publication of the National Association of Mutual Savings Banks

At Connecticut Annual—

Watchword Is Caution Despite Hopeful Signs

New Flurry of Federal Charter Applications

New Hampshire Delegates Told: Prepare For More Competition

DIDC Shapes MM Accounts... Competitive Battle Begins

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Tumbling Market Rates Buoy Mortgage Banker Outlook

Also: Reports Quick Sell-Out on Below-Market Consumer Loans ■ International Savings Bank Committee Meets in U.S. ■ Regulators Probe New Banking Law at Seminars ■ Annual SBJ Index

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Vol. 63 No. 10 **December, 1982**

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Mortgaging trends

Rates down. The average effective interest rate on mortgages for new homes fell to 14.41% in October from 14.98% in September, and to 14.95% from 15.27% on existing homes, the FHLB Board reported last month.

The Bank Board also said that for new homes in October, the average term-to-maturity rose to 28.4 years from 28.1 years, and the average purchase price increased to $99,100, from $95,000. For existing homes, the average term-to-maturity dropped to 25.2 years from 25.4 years and the average purchase price was down to $70,500 from $71,400.

Starts up. House starts rose slightly between September and October, to a seasonally adjusted annual rate of 1.12 million from 1.11 million, the Commerce Department reported last month.

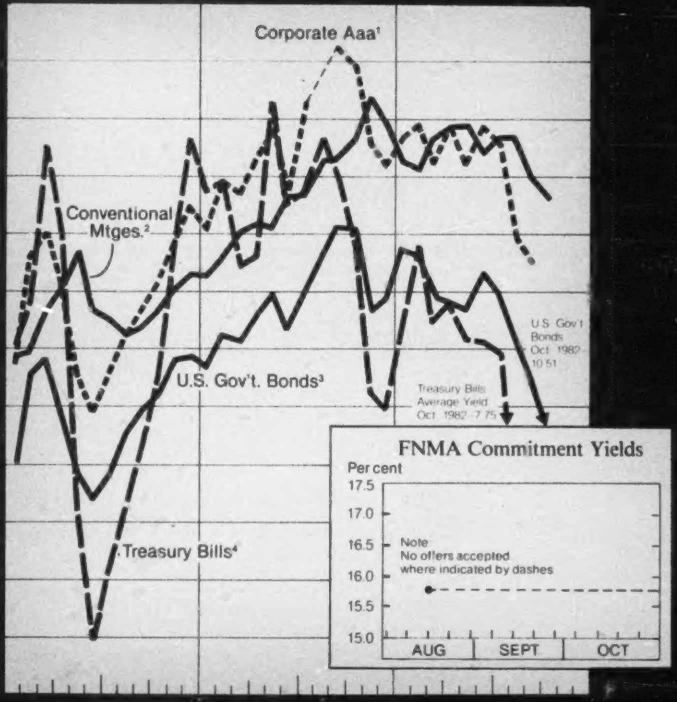
In the single-family sector, starts rose to an annual rate of 679,000 in October from 670,000. The multifamily starts rate inched up to 443,000 from 441,000.

Meanwhile, as an indicator of better times ahead in the housing industry, total building permits increased to an annual rate of 1.18 million in October from 1 million the previous month. Permits for single-family homes were filed at an annualized rate of 634,000, up from 561,000, and the permit rate for multifamily homes was 547,000, compared to 442,000.

Eliminates non-member fee. Savings banks and other financial institutions which are not members of the FHLB System were relieved effective November 1 of the ½ of 1% fee charged on loans sold to the Federal Home Loan Mortgage Corporation.

The FHLMC said removal of the nonmember fee enhances its ability to serve a broader base of seller/services and makes the corporation's programs "financially attractive" to all residential mortgage lenders. Until now, the FHLMC has mainly served FHLB System members; for example, in 1981, of the participants in all of its programs, 92% were S&Ls, while only 4% were commercial banks, 3% were mortgage bankers and 1% were savings banks.

The policy change impacts about two-thirds of the nation's savings banks—132 savings banks are FHLB System members, as of September, and commercial banks and mortgage bankers.



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savings bank statistics

Record deposit outflows reflect heavy All Savers CD losses ■ Emphasis on liquidity continues

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1978	−591	−.45	7,697	5.80
1979	−6,962	−4.93	2,659	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
Monthly				
1982				
May	−654	−.43	232	.15
June r	−1,214	−.80	867	.57
July r	−1,066	−.70	−198	−.13
Aug. r	−809	−.53	123	.08
Sept.	−881	−.59	999	.67
Oct. (Est.)	−1,800	−1.19	−900	−.60

State	Change by States							
	September 1982				September 1981			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	−85	−.57	55	.37	−163	−1.17	−41	−.30
Me.	−23	−.86	−4	−.13	−27	−1.03	−7	−.28
Md.	6	.35	22	1.20	−5	−.32	10	.59
Mass.	−138	−.63	29	.14	−232	−1.09	−63	−.30
N.H.	−15	−.56	6	.24	−31	−1.24	−10	−.40
N.J.	−78	−.83	1	.01	−82	−.91	*	**
N.Y.	−514	−.68	689	.91	−946	−1.22	364	.47
−City	−412	−.81	455	.90	−772	−1.42	209	.38
−Upstate	−102	−.41	234	.94	−174	−.74	155	.66
Penn.	28	.21	158	1.20	−52	−.41	79	.61
R.I.	−6	−.34	18	.99	−18	−1.03	4	.26
Vt.	−20	−2.25	−13	−1.47	−2	−.29	8	.98
Wash.	−22	−.65	45	1.35	−77	−1.99	*	.01
TOTAL	−881	−.59	999	.67	−1,679	−1.11	319	.21

Note: Regular deposits excludes special purpose accounts such as checking, school and club. est.—estimated. r-revised
*less than $500,000 **less than .005%

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings	Time			
											Market-linked[2]	Other		
Year-end														
1977	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	—	54,739	3,292	9,978
1978	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	13,000	56,354	4,565	10,907
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
Month-end														
1981														
Oct.	99,903	14,079	9,765	2,394	20,302	3,727	25,523	175,693	154,066	48,238	78,931	24,806	11,513	10,114
Nov.	99,879	13,893	9,508	2,271	20,268	3,713	25,727	175,258	153,809	48,456	79,773	23,558	11,434	10,015
Dec.	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
1982														
Jan.	99,788	13,948	9,991	2,290	20,288	3,613	26,020	175,938	154,843	48,898	81,825	22,078	11,280	9,814
Feb.	98,838	14,030	9,966	2,293	20,186	3,565	26,885	175,763	154,626	48,297	82,997	21,321	11,464	9,672
Mar.	97,464	13,738	10,072	2,276	20,166	3,475	27,585	174,776	154,021	48,412	83,402	20,164	11,132	9,622
Apr.	97,160	13,793	10,146	2,269	20,256	3,424	27,765	174,813	153,187	47,733	83,992	19,296	12,141	9,485
May	96,334	13,990	9,968	2,259	20,079	3,417	28,905	174,952	153,354	47,895	84,898	18,460	12,246	9,352
June r	96,364	14,077	10,217	2,240	19,153	3,382	29,792	175,225	154,392	47,977	85,718	18,573	11,263	9,570
July r	96,282	14,103	10,058	2,236	19,137	3,411	30,457	175,683	154,314	47,580	86,289	18,101	11,926	9,443
Aug. r	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
Sept.	94,382	13,740	9,404	2,191	18,839	3,266	31,667	173,487	153,089	47,496	85,561	17,738	11,166	9,232
Oct. (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	151,939	n.a.	83,841	n.a.	n.a.	n.a.
% of Total Assets														
Sept. 30, 1982	54.4	7.9	5.4	1.3	10.9	1.9	18.3	100.0	88.2	27.4	49.3	10.2	6.4	5.3
Change during month	−168	−38	−271	−10	23	−77	1,065	523	1,014	576	792	−369	−505	15

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items. n.a.—not available. Est.—estimated. r-revised. Source: NAMSB.

[1]— Total deposit figures include checking, school, club and certain other accounts not shown separately.

[2]— Market-linked figures include 91-day, 6-mo. MMCs, 30-mo. SSCs, and All Savers Certificates.

NOTE

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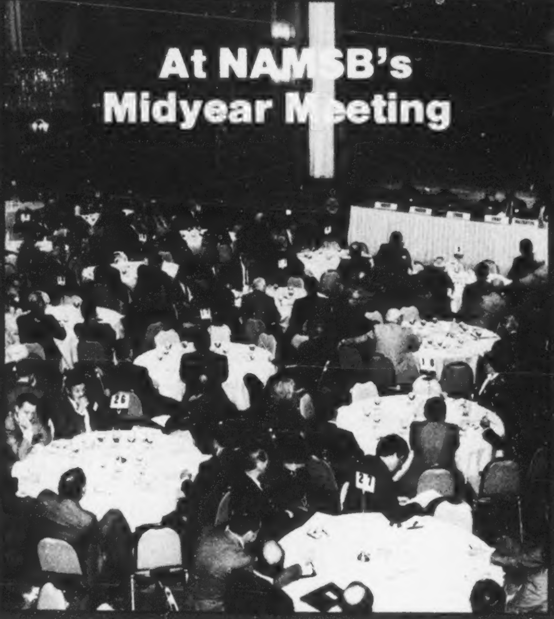
Outlook in 1983
For Economy, Savings Banking

Some Banks Move Quickly For Capital Aid


At NAMSB's Midyear Meeting

Day One For Money Market Account, Super NOW

FDIC's Capital Assistance Policies

Also: S&Ls In Far and Mid West Seek Federal Savings Bank Charters ■ Marketers Told: Adopt Personal Sales Strategy ■ Garn-St Germain Act Triggers State Parity Legislation ■ Voluntary Mergers Continue

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OUTLOOK

FOR THE ECONOMY AND SAVINGS BANKING

Developed by the National Association's research staff, this outlook was presented initially during the Midyear Meeting last month by George Hanc, NAMSB first vice president and chief economist.

After three years of crisis and gloom, the fortunes of savings banking have taken a turn for the better. Reduced interest rates and passage of the Garn-St Germain Act have brightened our industry's prospects. The condition of savings banking has obviously strengthened and further improvement is likely in 1983. Next year, we expect that:

- The economy will recover slowly and grudgingly;
- Inflation will continue subdued;
- Interest rate levels will remain moderate;
- Savings bank deposit outflows will diminish;
- On the bottom-line, the industry will come close to breaking even, although some institutions will continue to show signficant losses; and
- Forced mergers will decline because of improved earnings trends and capital assistance.

Impact of DIDC Actions

More than just a year of improved cyclical performance, 1983 will be a year of longer-lasting change. The Garn-St Germain Act and state action have provided our institutions with broadened authority to restructure assets, develop new products and seek new markets. The Act has also brought the money market deposit account and hastened the process of deposit deregulation. As a result of these developments, the face of savings banking will never be the same.

This was dramatically underscored by the December 6 actions of the Depository Institutions Deregulation Committee, which authorized the "Super NOW" account and took other steps to speed up deregulation. These DIDC actions will raise savings bank deposit interest costs and slow down the return to profitability. However, they will not nullify the beneficial effects of the recent 500-600 basis point reduction in short-term interest rates. Accordingly, we expect that 1983 will still be a period of major improvement in the deposit and earnings experience of savings banks.

In fact, 1983 could be a crucial year in our industry's history. Based on our expectation of a generally favorable financial market climate, it will be a year of opportunity to revitalize our institutions and rebuild their competitive strength. But it will also be a year of problems in grappling with accelerated deregulation of the deposit structure. How savings banks respond to both the opportunities and the problems will critically affect their future, not just in 1983, but far beyond.

Economy Struggling Back

Central to savings bank prospects in 1983 is the outlook for the economy. In 1982, the economy sank into the worst recession during the post-World War II period, while the unemployment rate reached its highest level in 40 years. More than anything else, it was the recession that brought about the decline in interest rates—by reducing private credit demands, by enabling the Federal Reserve to ease monetary policy without reigniting inflationary expectations, by permitting massive Treasury borrowing without crowding out private borrowers.

Currently, the economy is struggling to get on track. We anticipate a modest pickup next year, primarily because reduced interest rates and lower inflation will provide the basis for a gradual improvement in economic activity. Continuation of the military buildup and the last of the scheduled 10% tax cuts will also have some stimulative effect.

For 1983 as a whole, real GNP should rise by about 2.5% over this year, contrasting with a 1.5% decline in 1982. This will fall somewhat short of the 3% to 4% rise recently projected by Administration officials and far short of the 5% to 6% increases experienced in past post-recession periods.

Among the reasons for expecting an incomplete recovery are the following:

- Spending by consumers will strengthen, but the rise will be limited. The chief stimulative factors will be reduced borrowing costs, increased real after-tax incomes and improvement in household balance sheets resulting from recent debt reduction and higher saving. A major negative factor will be consumer caution in the face of high unemployment, which is likely to remain near the 10% level during most of 1983.
- Housing activity will recover from rock-bottom levels due to reduced mortgage costs and increased credit availability, but will fall far short of earlier peaks.
- Business capital spending will be held back by excess capacity even as sales and profits improve.
- "Real" interest rates (after inflation is factored out) will still be high by any but the most recent standards, and this will continue to slow economic expansion.

In sum, no major sector of the economy is poised to spearhead a really vigorous turnaround. Largely because of this, only a partial recovery is in prospect for 1983. This is the unavoidable outcome of applying anti-inflationary medicine to an inflationary economy. For years at these meetings, we have emphasized a simple point. We said that it took many years for inflation to permeate the economy, and that it would take years of slow growth to eliminate inflation. After three years of stagnation, this has unfortunately turned out to be the case.

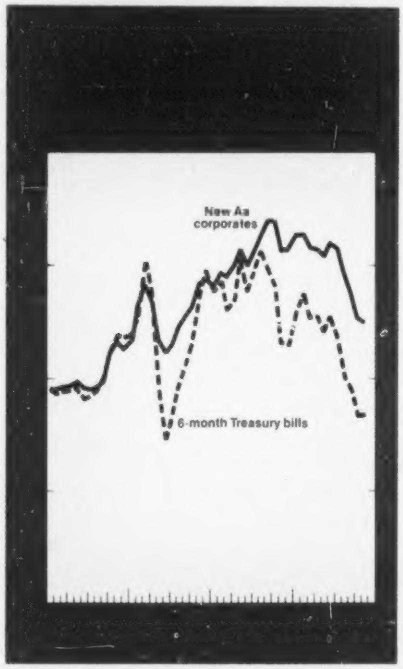
Inflation: Down Further

Indeed, reduced inflation is one of the bright spots in an otherwise grim picture. The trend has been favorable both in the areas subject to volatile price changes and in the underlying, core inflation rate.

Among the more volatile areas, for example, energy prices have been held down by worldwide restrictions on demand. Inflation in other sectors has also slackened due to weak business conditions in the U.S. and other countries. On a fundamental level, wages have increased more slowly in the face of high unemployment, while productivity has picked up. In government policy, monetary restraint was maintained. And a basic political factor has been widespread public support for the anti-inflation effort.

The inflation news has clearly been good, and near-term prospects are favorable. In 1983, we anticipate that there will be further relaxation of inflation for the year as a whole, although the pace of the decline should slow. In terms of the consumer price index, we project a rise of about 5% in 1983, compared with increases of 6% in 1982, 10% in 1981, and 14% in 1980.

It would be premature to declare victory on the inflation front. A revival of business conditions in this country and abroad could cause prices to firm up. Persistent unemployment could lead to another shift in federal policy priorities and downgrade the fight against inflation. Still, an early return to double-digit inflation rates is very unlikely.



Housing: A Gradual Improvement

The devastated housing industry will revive somewhat in 1983. We project that housing starts will total some 1.4 million units in 1983, compared with a little over 1 million in 1982. Lower mortgage interest rates will enable more borrowers to qualify for credit, while mortgage credit availability will increase as thrift institution deposit trends improve. An obviously favorable factor will be pent-up demand, resulting from favorable demographics and three years of depressed sales.

The projected rise, however, will leave housing starts far below the 2-million-plus levels reached in earlier peak years. The building industry has been severely battered and will need time to gear up for increased production. Home prices may firm up and offset part of the decline in mortgage interest costs. And even though more people will be able to afford home purchases, a climate of high unemployment will hardly be conducive to buyer enthusiasm.

Furthermore, the supply of mortgage credit, while expanding, will hardly reach flood-tide proportions. Thrift institutions will not quickly regain lost ground in deposit markets. Given their painful past experience, moreover, they will seek to channel new lending through flexible rate contracts, which still meet with consumer resistance in some markets. All things considered, housing activity should experience a cyclical recovery in 1983, but remain at moderate levels.

Interest Rates: Remaining Moderate

As for interest rates, the big decline is behind us for this economic cycle (Chart 1). In 1983, there will be volatile movements up and down in response to rapidly shifting market expectations. No further reduction of major proportions and sustained duration seems likely, however, in view of the prospect of massive Treasury borrowing and the gradual buildup of private credit demands.

Nor are we likely to see a major upsurge comparable to the shattering increases experienced in recent years. A return to the record interest rate levels reached in 1981-82 is not an immediate prospect. In the near-term future, cyclical peaks should be lower than in the recent past, because of weakness in the economy and reduced inflation.

Our best guess for 1983 is that rates on six-month Treasury bills will fluctuate around the 8% to 9% level. Late in the year, short-term interest rates may

Notes on Outlook Charts

On interest rates . . . Data refer to: (1) monthly averages of weekly discount rates on six-month Treasury bill auctions through November 1982; and (2) yields on new Aa corporate bonds.

On net deposit change . . . Annual percentage changes, excluding interest be moving up somewhat along with the economy. In mortgage markets, some further downdrift from current levels is likely, as deposit trends strengthen at thrift institutions and investors move further out on the yield curve. By the end of 1983, conventional home mortgage interest rates should be in the 12% to 13% area, with the usual differences among individual primary market areas.

All of this is predicated on our expectations regarding the course of the economy, inflation and Federal Reserve policy. With respect to the latter, Fedwatchers have been heatedly debating the significance of recent Federal Reserve actions. Some have concluded that the Fed has abandoned the monetarist approach by allowing money supply growth well above the M1 target range. Other observers are inclined to the view that the change was technical in nature, and point to the fact that the broader M2 measure, while also expanding rapidly, remains closer to its target. They question whether the Fed has altered its position in any fundamental way.

Fed Policy Role

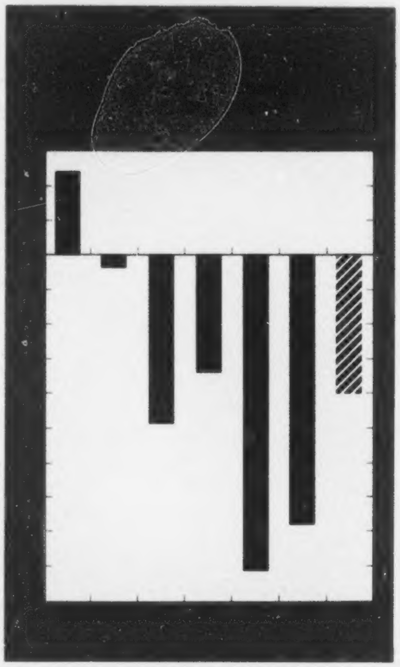
Whatever the final verdict, financial markets have rallied dramatically and it is clear that the Federal Reserve at least let it happen. Next year, we expect that the Fed will be able to remain fairly accommodative, without rekindling renewed inflationary expectations. It will resist pressures to flood the market with money since this would nullify hard-won gains on the inflation front and would be self-defeating in the end. But the Fed can be flexible in its posture, and this includes allowing further monetary expansion, as long as the economy remains weak and inflation is at reduced levels.

Down the road, a major problem facing the Federal Reserve is the federal budget, where dozen-digit deficits are built in for years to come. Current estimates of the fiscal 1983 deficit alone range from $150 billion to $200 billion. While swollen by the recession, the deficits also reflect earlier decisions to reduce taxes without sufficient spending cuts being first put in place. There is the potential for a collision between mammoth deficit financing and Federal Reserve restrictions on money supply growth.

credited, in saving and time deposits at savings banks. Data for 1983 are projected.

On net income . . . Net income of savings banks after expenses, taxes, interest and net realized losses or gains on assets as a percent of average of beginning, mid- and end-of-year assets. Data for 1983 are projected.

In 1983, at any rate, we believe that a major monetary-fiscal policy confrontation can and will be avoided. Sluggish private credit demands in a generally weak economy will help reduce the rate of monetary expansion, relieve pressure on the Fed and accommodate continued large-scale Treasury borrowing without excessive strain. This prospect would be greatly enhanced if forceful fiscal actions were taken to reduce projected federal deficits, particularly for the years beyond 1983.



In this regard, additional pressures on the budget may arise because of new measures designed to strengthen the economy. In light of the unemployment problem and the election results, a "mid-course adjustment" in Administration policy is already becoming apparent. Public works proposals are being advanced by both political parties.

At the same time, various budget-cutting proposals are being readied and the battle is heating up. Conflicts may well arise between the desire for stimulative action to help the economy in the short run versus the need to reduce deficits in the out years. There are also bound to be conflicts between the President and the Congress as to the areas for achieving budget savings—defense, social security, other social programs and "revenue enhancements."

Major budget savings in any of these areas are politically uninviting. This is especially so in view of the state of the economy, the spending cuts previously adopted and the enactment of a $100 billion, three-year tax increase only a few months ago. Failure to act, however, could undermine financial market expectations and threaten sustained economic recovery. That reduction in projected federal deficits is crucial for the health of the economy is increasingly accepted on both sides of the political aisle.

And this brings us to the usual caveats and qualifications. Any interest rate forecast runs the risk of obsolescence before the ink is dry. It is useful, therefore, to consider what factors could make this one go wrong.

There are always imponderables, and 1983 is no exception. There is the possibility of major disturbances in international finance resulting from the weakness of third-world economies. Potential oil problems from the Mid East can never be completely discounted. In our judgment, however, the chief risk is political in nature. The President and the new Congress have to get together on the budget, but the process could be delayed by political jockeying for position, as well as more fundamental differences in philosophy. A widespread feeling that the budget is out of control could produce a sinking spell in financial markets, as it did in early 1982. Our view is that political leaders will make the necessary compromises to avoid this risk.

Deposit Trends: Diminishing Outflows

In the anticipated 1983 climate, savings bank deposit outflows should diminish significantly. In 1982, you need hardly be reminded, the industry suffered heavy deposit outflows, the fifth consecutive year of disintermediation. The striking point is not that large-scale deposit losses occurred in 1982, but that they persisted throughout the year, apparently unaffected by a number of seemingly favorable developments—new deposit accounts, the rise in overall personal saving, and the decline in interest rates after midyear.

This disappointing experience reflects a number of factors.

- First, new deposit instruments introduced in the past year or so proved unattractive, beginning with All Savers Certificates after the initial burst of sales, and continuing with the 91-day and 7-31 day accounts.

- Second, deposit flows at some institutions were depressed by adverse publicity regarding thrift institution earnings and capital problems.
- Third, many institutions paid less than ceiling rates on some accounts in order to hold down expenses.
- Fourth, thrift institutions failed to share in the increase in personal saving following the July 1 tax reduction, in contrast with past experience. This time around, consumers elected to pay off debts or channel the savings to money market funds, commercial banks, the stock market and elsewhere.

In addition, a basic factor underlying the absence of a strong deposit recovery is the operation of an increasingly market-linked deposit structure. In bygone days, when a fixed-rate system prevailed, savings banks enjoyed a major return flow of funds as market interest rates declined below deposit rate ceilings. In a market-linked system, of course, our rates decline along with the market. Lower interest rates do not automatically produce a big upsurge in deposits as was once the case.

For a number of reasons, however, we expect some improvement in our industry's deposit experience next year (Chart 2). Many savings banks may seek deposits more aggressively, as their earnings positions strengthen. Furthermore, the capital assistance program provided by the Garn-St Germain Act should dispel public concern about the viability of thrift institutions and thereby strengthen deposit trends.

New Accounts Will Aid Growth, Increase Costs

The new money market deposit account and the "Super NOW" account should be more effective tools for competing with money market funds, even though internal transfers from passbook accounts will cause upward pressures on costs. For the first time, savings banks will be able to offer present and potential customers high-yield accounts with transaction features, as well as deposit insurance. This will help retain funds that would otherwise leave the banks and will also attract some new money. Further deregulation actions, such as removal of ceilings on specific accounts, are likely to have similar effects—stimulating growth while increasing expenses.

According to our projections, the industry's deposit outflow will be cut by about one-half—from $12 billion, excluding interest, in 1982 to some $6 billion in 1983. As a percentage of outstanding deposits, the deposit loss will diminish from 8% to 4%. If interest is included, deposit growth will increase from $3 billion in 1982 to $9 billion in 1983.

While clearly an improvement, this will be a far cry from the robust gains seen in earlier years of reduced interest rates. Indeed, a return to strong growth is not an immediate prospect. All-out competition will be prohibitively costly for some institutions. It will take time to reattract deposits back from money market funds, which will seek to adapt their products to attract new customers and hold on to those they already have. Accelerated elimination of the thrift institution differential, furthermore, would mean stiffer competition from commercial banks.

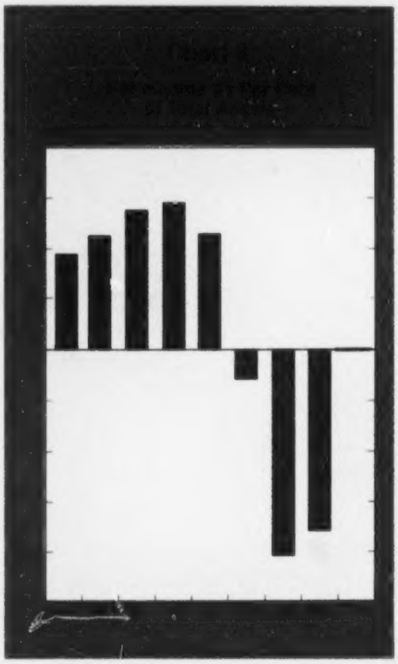
In future years, savings banks will be able to absorb the costs of the transition to deregulation and reestablish their position in deposit markets. With restructured balance sheets and strengthened earnings, savings banks will eventually be able to stand up to any competitors. In 1983, however, a reduction in deposit losses on an industrywide basis, rather than a resumption of actual gains, is the more likely prospect.

Investment Policy: Restructuring the Main Goal

As for investment policy, savings banks should have improved opportunities for asset restructuring next year. Funds available for investment will increase as deposit outflows diminish and mortgage turnover rises along with the increased activity in real estate markets. Savings banks with sufficient capital will be able to obtain additional funds by selling existing assets at reduced losses, or at a profit, in some cases. All of this will be helpful in utilizing new powers and moving toward better-balanced, more rate-sensitive portfolios which are in tune with a market-related deposit structure.

In 1982, of course, savings bank investment activity was dominated by liquid asset growth. During the first nine months of 1982, the industry increased its holdings of liquid assets, while reducing all major types of long-term assets. The shift from long- to short-term assets continued the trend that has been dramatically evident in recent years. As a result, federal funds alone represented 4% of assets at the end of September, while all investments maturing within one year amounted to 12%. This was double the proportion that used to prevail before the liquid asset buildup that began in 1979 in response to high interest rates and disintermediation.

While providing greater opportunities, the improved climate also raises anew some old questions. It may be tempting, for example, to go long once again, in view of an upward-sloping yield curve. Indeed, inching modestly up the maturity scale makes sense at the present time. But a return to long-term, fixed-rate investments—except when undertaken for later resale—represents an extremely hazardous policy.



The main priority should be to restructure assets to increase their rate sensitivity for the future. This is underscored by the introduction of the new transactions accounts. As a consequence, a significant part of the deposit structure will be shifted to a potentially more volatile form.

It will not be easy to reshape portfolios to reduce interest rate risk. There will be some earnings penalty while interest rates are declining. Entry into commercial lending and other new areas may require heavy start-up costs and it will take time to penetrate new markets. Flexible-rate mortgages may continue to be difficult to introduce in areas where borrowers are unreceptive. In this regard, the Garn-St Germain Act authorizes state-chartered lenders to engage in the same alternative mortgage transactions as federally chartered institutions, which should be helpful in a number of states.

All restructuring strategies present problems, and no simple solutions are available. Nevertheless, efforts in this direction need to be pushed hard while favorable opportunities exist.

Earnings Prospects

The most striking and welcome change in the savings bank picture will be the improvement in the bottom-line. Prior to the December 6 actions of the DIDC, we expected that the industry would be in the black next year, earning perhaps 20 basis points on assets. In light of the latest DIDC decisions and further deregulation measures that may be taken, the industry will do well to break even in 1983 (Chart 3). Nevertheless, a break-even position on the bottom-line will still represent a stunning turnaround, and will contrast dramatically with staggering losses of 72 and 82 basis points in 1982 and 1981, respectively.

The most important reason for the improvement, of course, will be reduced costs on six-month MMCs and other market-linked deposits in a lower interest rate climate. Lower costs on borrowings and other liabilities will also be a factor at some institutions. At the same time, gross income rates will rise further, as mortgage repayments continue to be reinvested at higher yields. As noted earlier, asset turnover will also speed up, some modest maturity lengthening will take place and capital gains will be realized by some institutions.

On the negative side will be the cost impact of deregulation, reflecting shifts of funds from passbook savings to the new transactions accounts and to other market-rate deposits. In this regard, our original projections for 1983 assumed a substantial volume of internal transfers to the new money market deposit account. As a result of the "Super NOW" account and reduced minimum denominations on short-term time deposits, the volume of internal transfers will be considerably greater than previously anticipated. But we also assume that any rate wars which may flare up will be reasonably subdued, particularly after the introductory promotional period for the new transaction accounts is over.

Introduction of withholding will impose additional burdens, by reducing the supply of investable funds and increasing expenses. On balance, however, these negative forces will be more than offset by favorable factors, thereby producing a major improvement in the industry's bottom-line position in 1983.

Even more than in the past, industry earnings trends will mask widespread differences among individual institutions. When it comes to earnings, there is effectively more than one savings bank industry. There are those fortunate savings banks, including numerous smaller institutions, which were able to ride out the storm and remain profitable throughout the past three tumultuous years. Others experienced brief periods of red ink, but have already turned the corner. Still others, including many large savings banks, will continue to suffer large-scale losses after profitability has been restored to the industry as a whole. Thus, bottom-line positions of individual institutions will vary widely in 1983, although the general trend will strengthen.

Together with the availability of capital assistance, the bottom-line improvement should reduce forced mergers. As for voluntary mergers, some institutions may reconsider the feasibility of going it alone, in view of the improved earnings climate. Merger remains a basic option, however, to be considered in meeting the demands of deregulation and in exploiting new powers. In short, consolidation of the industry will most likely continue, but mainly on a voluntary basis.

Beyond 1983

In considering savings bank prospects, a key question concerns the longevity of the improvement we are now experiencing and expect in 1983. Assuming that next year will go according to plan, will this merely be a temporary respite? Or will the industry be on the track to full recovery and renewed long-run strength?

Having few illusions about the accuracy of long-term projections, we offer no confident pronouncements on this issue. Looking beyond favorable 1983 prospects, our industry's long-run future depends heavily on factors that defy easy prediction:

- How the economy and federal economic policies will behave in the years ahead;
- How and when the Congress will address basic financial structure issues, such as depository versus nondepository competition and interstate banking; and
- How rapidly and effectively savings banks will utilize new powers and respond to a deregulated environment.

As for longer-run economic prospects, some observers pose the possibility that the high-interest-rate period may have come to an end. The economy will take a long time recovering, they suggest, and inflation will continue to wind down. According to this view, interest rates may trend downward for several years, creating a continually improving environment for our industry.

Our strong feeling, however, is that savings banks must expect a difficult and demanding long-run future. It remains prudent, we believe, to plan for a long-run environment of volatile and sometimes high interest rates. As noted earlier, massive federal deficits are in place for as long as anyone cares to project, while the Federal Reserve may have to clamp down periodically to restrain reawakening inflation. Although interest rates are not likely to return to the stratospheric levels seen in 1981–82, they may still reach acutely uncomfortable levels in future years.

In the financial system, the one sure thing about the long run is that savings banks will be tested by more competition. Deposit interest rate regulation, already nearly ended, will be eliminated altogether. Other basic financial structure issues will be addressed and most likely resolved in favor of more deregulation and competition.

Operating in a deregulated environment will be a new and frequently unpleasant experience. Fortunately, interest rates have come down, and the longer they stay down, the easier the transition will be. New investment powers, moreover, will be vitally helpful in restructuring assets and strengthening earning power over the long pull. Eventually, savings banks should be able to take on any competitors in the marketplace.

In plain language, no one knows for sure how long financial market conditions will remain favorable, or how difficult the long-run future will be. The important thing is to get ready, while we have the chance, for the tougher times that may come later on.

Conclusion

Our industry has passed through its greatest trial since the 1930s. And now, we are entering a new era, to use that well-worn phrase. Deregulation has taken big steps on both sides of the balance sheet, and presents both problems and benefits to our industry. The problems are hard upon us, while the benefits in terms of broadened powers will take time to realize. Improved financial conditions offer a critical opportunity to make important headway. Whether this opportunity is brief or lasts long, we must make the most of it. **(END)**

Adopt New Names To Reflect Change

In November, two savings banks adopted new names, each downplaying a savings orientation.

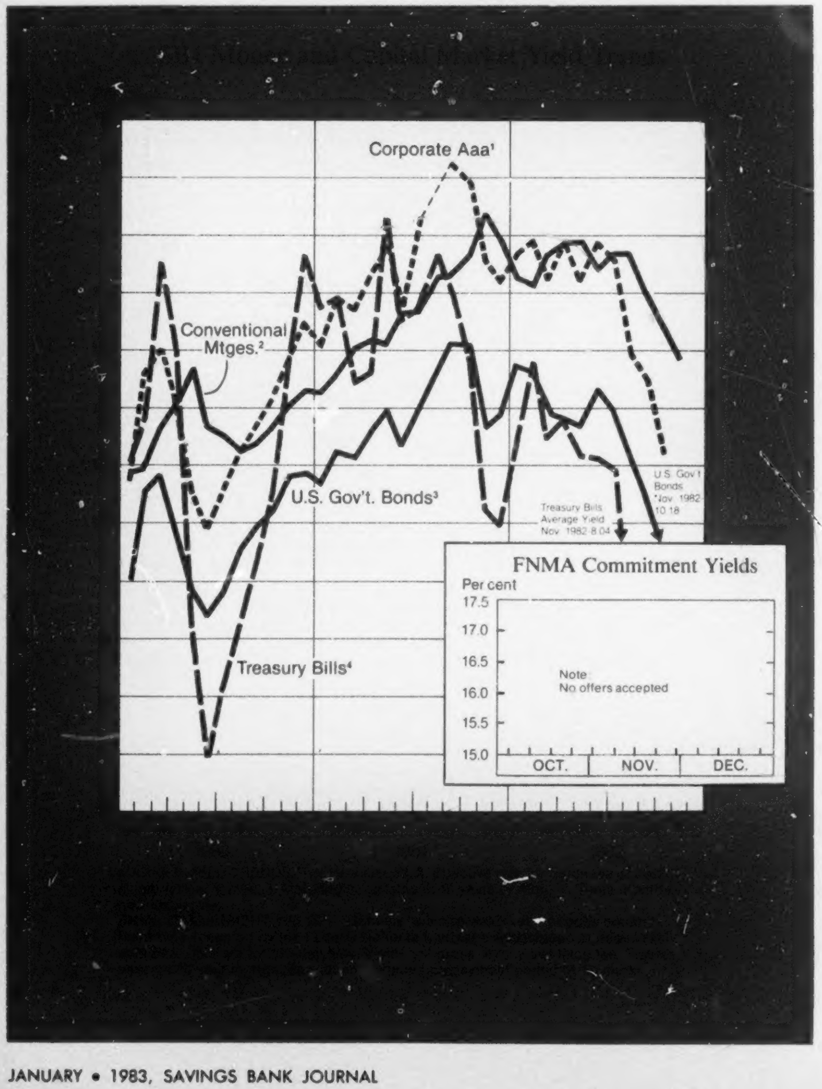
In one case, the $8.8 billion-assets Buffalo (N.Y.) Savings Bank became known as Goldome Bank, in a move designed to reflect its enlarged geographic scope and asset size, as well as new services.

The new corporate identity brings uniform identification to the bank's various divisions which resulted from the bank's recent expansion, including the merger of three major New York savings banks between December 1981 and March 1982 (May 1982 Newsmonth).

According to Ross B. Kenzie, the bank's president and CEO, Buffalo's growth into the nation's second largest savings bank and its expanded financial services "required a new corporate identity that would reflect all of this, while continuing to preserve our original strength and stability."

In the other November name change, the $201.3 million-assets Central Savings Bank, Baltimore, introduced itself as CentraBank. The bank wanted a name that took the savings orientation away while maintaining a link with the past, explained Thomas M. Brightman, senior vice president. "We wanted something short and snappy and which said we are a bank."

The reasoning behind Central Savings' name change parallels that of other thrifts which have undergone name changes. Explained Brightman, "In 1982, we were perceived as only offering savings accounts and mortgages. It's hard to change an image when the name still evokes 100 years of tradition."



Mortgaging trends

Rates drop. The average effective interest rate on mortgages for new and existing homes fell signficantly in November compared to the rate in October. For new homes, the rate dropped to 13.83% from October's 14.41%, and for existing homes, it fell to 14.32% from 14.95%, the FHLB Board said last month.

For new homes in November, the average mortgage term-to-maturity was 27.9 years, compared with 28.4 years the previous month, and the average purchase price was $97,200, down from $99,100 in October. For existing homes in November, the average mortgage term-to-maturity was 25.1 years, down from 25.2 years, and the average purchase price was $69,700, down from $70,500.

Starts up. Housing starts increased in November to their highest rate in nearly two years, hitting a seasonally adjusted annual rate of 1.43 million, the Commerce Department said last month.

Single-family starts rose to an annual rate of 872,000, from October's 705,000, and multifamily starts increased to an annual rate of 556,000, up from 424,000.

The annualized rate of building permits issued surged in November, increasing 6.1% from October to 1.24 million units. Single-family permits were issued at a rate of 746,000 in November.

Acquiring mortgage company. Reflecting a trend among thrift institutions to increase their loan servicing fee income, People's Savings Bank-Bridgeport, Conn., last month said it plans to acquire a New Jersey-based mortgage finance company.

The $2.4 billion-assets savings bank expected to acquire Heritage Mortgage Finance, Haddonfield, by year-end. It will operate the loan company as a subsidiary.

Heritage Mortgage, a wholly owned subsidiary of Heritage Bancorporation, services more than 17,000 loans with a total value exceeding $600 million. The company also has five loan origination offices in New Jersey, Pennsylvania, Delaware and Florida, and has a correspondent program in Texas.

savings bank statistics

Deposit outflows abate ■ But November deposit losses set record for month ■ Assets contract

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1978	−591	−.45	7,697	5.80
1979	−6,962	−4.93	2,659	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
Monthly				
1982				
June	−1,214	−.80	867	.57
July	−1,066	−.70	−198	−.13
Aug.	−809	−.53	123	.08
Sept.	−881	−.59	999	.67
Oct.	−1,825	−1.21	−979	−.65
Nov. (Est.)	−1,400	−.93	−500	−.33

State	Change by States							
	October 1982				October 1981			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	−121	−.81	14	.09	65	.47	184	1.33
Me.	−20	−.75	*	**	1	.05	21	.83
Md.	−26	−1.39	−12	−.63	6	.38	19	1.12
Mass.	−143	−.65	30	.14	39	.19	209	.99
N.H.	−17	−.66	5	.17	15	.59	37	1.47
N.J.	−106	−1.13	−31	−.33	62	.69	142	1.58
N.Y.	−1,105	−1.45	−802	−1.05	−318	−.41	−17	−.02
−City	−821	−1.60	−656	−1.28	−324	−.59	−151	−.28
−Upstate	−285	−1.14	−146	−.58	6	.02	134	.57
Penn.	−162	−1.22	−86	−.65	103	.80	195	1.50
R.I.	−22	−1.20	−9	−.47	1	.09	13	.76
Vt.	−9	−1.06	−4	−.44	10	1.25	17	2.02
Wash.	−105	−3.11	−98	−2.92	−30	−.78	−20	−.52
TOTAL	−1,825	−1.21	−979	−.65	−65	−.04	789	.52

Note: Regular deposits excludes special purpose accounts such as checking, school and club. Total includes states not shown separately.
Est.—estimated *less than $500,000 **less than .005%

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings	Time			
											Market-linked[2]	Other		
Year-end														
1977	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	—	54,739	3,292	9,978
1978	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	13,000	56,354	4,565	10,907
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
Month-end														
1981														
Nov.	99,879	13,893	9,508	2,271	20,268	3,713	25,727	175,258	153,809	48,456	79,773	23,558	11,434	10,015
Dec.	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
1982														
Jan.	99,788	13,948	9,991	2,290	20,288	3,613	26,020	175,938	154,843	48,898	81,825	22,078	11,280	9,814
Feb.	98,838	14,030	9,966	2,293	20,186	3,565	26,885	175,763	154,626	48,297	82,997	21,321	11,464	9,672
Mar.	97,464	13,738	10,072	2,276	20,166	3,475	27,585	174,776	154,021	48,412	83,402	20,164	11,132	9,622
Apr.	97,160	13,793	10,146	2,269	20,256	3,424	27,765	174,813	153,187	47,733	83,992	19,296	12,141	9,485
May	96,334	13,990	9,968	2,259	20,079	3,417	28,905	174,952	153,354	47,895	84,898	18,460	12,246	9,352
June	96,364	14,077	10,217	2,240	19,153	3,382	29,792	175,225	154,392	47,977	85,718	18,573	11,263	9,570
July	96,282	14,103	10,058	2,236	19,137	3,411	30,457	175,683	154,314	47,580	86,289	18,101	11,926	9,443
Aug.	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
Sept.	94,382	13,740	9,404	2,191	18,839	3,266	31,667	173,487	153,089	47,496	85,561	17,738	11,166	9,232
Oct.	94,261	13,894	9,219	2,505	18,488	3,217	31,324	172,908	152,210	48,520	83,775	17,633	11,556	9,141
Nov. (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	151,635	n.a.	82,384	n.a.	n.a.	n.a.
% of Total Assets Oct. 31, 1982	54.5	8.0	5.3	1.4	10.7	1.9	18.1	100.0	88.0	28.1	48.5	10.2	6.7	5.3
Change during month	−224	155	−185	7	−43	−49	−364	−703	−992	987	−1,850	−115	384	−95

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items. n.a.—not available. Est.—estimated. Source: NAMSB.

[1]— Total deposit figures include checking, school, club and certain other accounts not shown separately.

[2]— Market-linked figures include 91-day, 6-mo. MMCs, 30-mo. SSCs, and All Savers Certificates.

NOTE

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Bank Recasts Market Niche

Offices—Part I

Public Tells Congress: Repeal 10% Withholding

How to Reduce, Shift D & O Liability Risk

Also: Industry 'Returns' to Ohio as S&L Converts to Federal Savings Bank ■ Slow Start for Super NOW Account ■ Massachusetts Authorizes Regional, Reciprocal Interstate Banking ■ Initial Applicants Obtain FDIC Assistance ■ Launches Liquidity Fund for Thrifts

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Since NAMSB 1920

February, 1983

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news month

Murphy Elected FHLB Director

For the first time a savings banker has been elected to the board of directors of the FHLB of New York.

The savings banker is Austin S. Murphy, chairman, president and CEO of New York City's East River Savings Bank. He was elected for a two-year term that began January 1.

There are five district FHLBs that currently have savings bank members. Prior to Murphy's election, the FHLB of Boston was the only one to have savings bankers as directors.

Murphy was among three new directors elected in December to the bank's 16-member board, which includes 10 elected and six appointed members. Representation on the board by elected directors is proportionate to stock ownership of members.

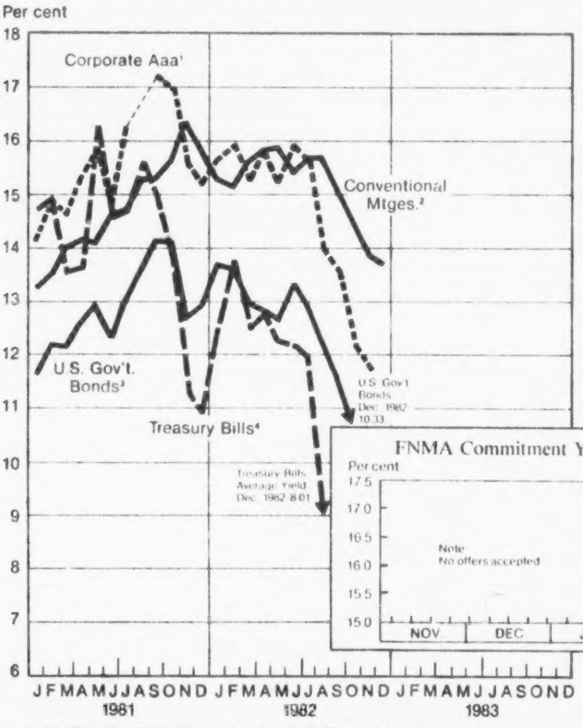
Murphy's election reflects the increased savings bank membership in the district which covers New York, part of New Jersey, Puerto Rico and the Virgin Islands.

There are 34 savings bank members out of a total 277 members in the New York district, up from 31 as of last May.

Meanwhile, at the FHLB of Boston, the bank's 1983 board of directors for the first time includes a savings bank representative from Massachusetts. He is Robert B. Nickerson, president and CEO of Winchester (Mass.) Savings Bank.

At the Boston bank, savings bankers hold six of the 10 elective board posts, and Robert R. Masterton, president and CEO of Maine Savings Bank, Portland, currently serves as vice chairman.

SBJ Money and Capital Market Yield Trends



MARKET YIELD TRENDS - 1. New issues. 2. Effective rate for purchase of new single-family homes. 3. Maturing or callable in 10 years or more. 4. Three months, new issue rate.
FNMA COMMITMENT YIELDS - Data are average yields on mortgage commitment bids accepted by the Federal National Mortgage Association at its biweekly auctions. Data are for 120-day bids. Yields are gross of 3/8% servicing fee. Figures assume 30-year mortgages with an assumed prepayment period of 12 years.

national mortgage markets

Rates fall. The average effective interest rate on mortgages closed on new homes fell in December to 13.69% from 13.81% in November, while the average rate on mortgages for existing homes dropped to 13.95% from 14.29% the previous month, the FHLB Board reported last month.

Starts off. Housing starts fell 13% between November and December, after three months of increases, the U.S. Commerce Department reported last month. Starts dropped to a seasonally adjusted annual rate of 1.22 million units in December, from 1.4 million.

Single-family starts declined to a seasonally adjusted annual rate of 800,000, from 883,000, while total multifamily starts plummeted 19% to an annual rate of 422,000, from 521,000.

Meanwhile, the annualized rate of building permits continued to increase, to 1.29 million from 1.19 million.

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savings bank statistics

Response to new money market deposit account strong ■ Savings bank deposit flows improve

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1978	−591	−.45	7,697	5.80
1979	−6,962	−4.93	2,659	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
Monthly				
1982				
July	−1,066	−.70	−198	−.13
Aug.	−809	−.53	123	.08
Sept.	−881	−.59	999	.67
Oct.	−1,825	−1.21	−979	−.65
Nov.	−1,445	−.96	−596	−.40
Dec. (Est.)	1,300	.87	3,500	2.35

State	Change by States							
	November 1982				November 1981			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	−82	−.55	45	.30	−46	−.33	77	.54
Me.	−27	−1.03	−9	−.32	−19	−.75	2	.07
Md.	3	.18	18	.99	−10	−.59	2	.14
Mass.	−259	−1.19	−105	−.48	−107	−.50	66	.31
N.H.	−43	−1.63	−23	−.88	−21	−.82	1	.04
N.J.	−53	−.57	18	.20	−70	−.76	10	.11
N.Y.	−668	−.89	−334	−.44	−553	−.71	−241	−.31
−City	−490	−.97	−309	−.61	−498	−.91	−340	−.62
−Upstate	−179	−.72	−26	−.10	−55	−.23	99	.42
Penn.	−267	−2.02	−180	−1.37	−199	−1.51	−106	−.81
R.I.	−2	−.11	8	.45	9	.49	19	1.09
Vt.	−13	−1.50	−9	−.98	4	.43	10	1.17
Wash.	−33	−1.01	−26	−.80	−39	−1.01	−28	−.74
TOTAL	−1,445	−.96	−596	−.40	−1,060	−.70	−188	−.12

Note: Regular deposits excludes special purpose accounts such as checking, school and club. Total includes states not shown separately.
Est.—estimated

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings	Time			
											Market-linked[2]	Other		
Year-end														
1977	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	—	54,739	3,292	9,978
1978	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	13,000	56,354	4,565	10,907
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
1981	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
Month-end														
1982														
Jan.	99,788	13,948	9,991	2,290	20,288	3,613	26,020	175,938	154,843	48,898	81,825	22,078	11,280	9,814
Feb.	98,838	14,030	9,966	2,293	20,186	3,565	26,885	175,763	154,626	48,297	82,997	21,321	11,464	9,672
Mar.	97,464	13,738	10,072	2,276	20,166	3,475	27,585	174,776	154,021	48,412	83,402	20,164	11,132	9,622
Apr.	97,160	13,793	10,146	2,269	20,256	3,424	27,765	174,813	153,187	47,733	83,992	19,296	12,141	9,485
May	96,334	13,990	9,968	2,259	20,079	3,417	28,905	174,952	153,354	47,895	84,898	18,460	12,246	9,352
June	96,364	14,077	10,217	2,240	19,153	3,382	29,792	175,225	154,392	47,977	85,718	18,573	11,263	9,570
July	96,282	14,103	10,058	2,236	19,137	3,411	30,457	175,683	154,314	47,580	86,289	18,101	11,926	9,443
Aug.	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
Sept.	94,382	13,740	9,404	2,191	18,839	3,266	31,667	173,487	153,089	47,496	85,561	17,738	11,166	9,232
Oct.	94,261	13,894	9,219	2,505	18,488	3,217	31,324	172,908	152,210	48,520	83,775	17,633	11,556	9,141
Nov.	94,017	13,950	9,456	2,496	18,598	3,205	30,566	172,287	151,304	49,208	81,997	17,962	11,893	9,089
Dec. (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	154,904	n.a.	79,374	n.a.	n.a.	n.a.
% of Total Assets														
Nov. 30, 1982	54.6	8.1	5.5	1.4	10.8	1.9	17.7	100.0	87.8	28.6	47.6	10.4	6.9	5.3
Change during month	−79	58	248	−8	110	−11	−731	−413	−738	731	−1,683	357	370	−46

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items. n.a.—not available. Est.—estimated. Source: NAMSB.

[1] — Total deposit figures include checking, school, club and certain other accounts not shown separately.

[2] — Market-linked figures include 91-day, 6-mo. MMCs, 30-mo. SSCs, and All Savers Certificates.

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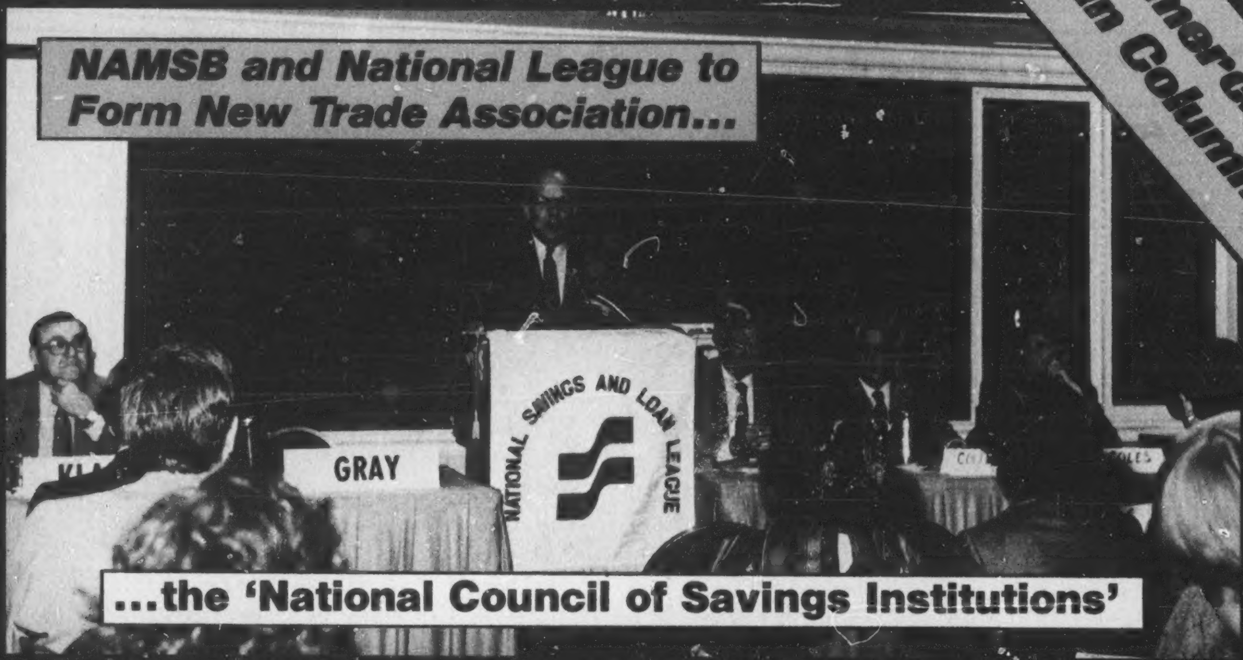

NAMSB and National League to Form New Trade Association...

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Operations Conference and Exhibit Preview

urge in Savings Bank ATM Growth

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Vol. 64 No. 1 **March, 1983**

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SURGE IN SAVINGS BANK ATM GROWTH

The number of industry automated banking units more than doubled in the past two years . . . and the expansion continues this year.

THE INCREASE in savings bank ATM installations is surging. For example, at year-end 1982, some 165 savings banks were operating a total of 1,077 ATMs—nearly a 140% increase from the 453 units savings banks were operating at the beginning of 1981, according to an **SBJ** industry survey late last year of ATMs in place and planned.

The ATMs were installed in office vestibules, on bank lobby floors and in unmanned kiosk facilities in remote locations. While most are being operated on a proprietary basis, many banks have tied in with regional, shared ATM networks. And at least a few—such as the Savings Bank of Puget Sound, Seattle, Wash.—are participating in a shared network without owning a single unit. The Savings Bank of Puget Sound is a non-owning, "rental" participant in The Exchange network, whose ATMs are owned by the network and other network institutions, according to the bank's Senior Vice President and Treasurer Robert G. Woodman.

Tracks Banks Offering ATMs

The number of savings banks offering ATM service has risen gradually since the mid-1970s—from just 28 in 1975 to 110 in 1980 to 165 banks in 1982.

However, **SBJ**'s recent industry survey revealed that the growth in number of ATMs operated by these banks has been anything but gradual during the past two years, when the number of ATM installations in the industry more than doubled, rising from 453 to 1,077.

In 1981, for example, savings banks installed 197 ATMs for a 43% increase. And then came 1982, when an additional 427 units were installed, for a 66% increase over the 650 ATMs operated by savings banks at year-end 1981.

The surge in savings bank ATM installations in the past two years emerged from data compiled in **SBJ**'s "1982 Special Survey of Electronic Customer Service Facilities." The survey data is based on third-quarter 1982 responses of 397 savings banks to the following questions: How many ATM installations were in operation on Dec. 31, 1981? How many installations were completed in 1981? How many installations were planned during 1982 and 1983?

To double-check actual fulfillment of plans through the fourth quarter of 1982, **SBJ** last month followed up with a telephone survey of a cross-section of banks that had responded to the survey. This telephone follow-up revealed that, on balance, savings banks did meet their ATM installation targets in 1982.

For example, the Dollar Savings Bank of Pittsburgh last year planned to install 22 on-premise and four off-premise ATMs, and more of both types this year. Assistant Vice President Timothy P. DaPra explained that the bank had met its goal of 22 on-premise ATMs last year, and will install 10 or 12 off-premise units this year, as well as four more on-premise machines, for a total of 16 additional units in 1983.

"In west Pennsylvania," he noted, "bank customers want the kind of 24-hour convenience provided by ATMs." Similar comments came from Richard P. Yanak, executive vice president of the American Savings Bank, New York City; from M. Thomas Juenemann, vice president-retail banking, Maine Sav-

ATM Expansion at Savings Banks
(Source: 1982 *SBJ* Industry Survey)

Project Timetable	Number Locations/ATMs	On-Premise	Off-Premise	Totals
ATM installations in operation at Dec. 31, 1981	Number locations	411	207	618
	Number ATMs	436	214	650
Installation completed in 1981	Number Locations	141	40	181
	Number ATMs	154	43	197
Planned for 1982 installation	Number Locations	252	131	383
	Number ATMs	295	132	427
Planned for installation after 1982	Number Locations	167	61	228
	Number ATMs	204	66	270

ings Bank, Portland; and from Peter F. Sammon, senior vice president, The Howard Savings Bank, Newark, N.J.

"ATMs are simply the right way to go in providing better customer service than the competition," said Yanak, confirming that his bank, as planned, had installed two ATMs in 1982, bringing the number it operates to four in three on-premise locations. In addition, Yanak said that American will install 12 more ATMs this year. "We already have 10 of them on order," he said.

At Maine Savings, Juenemann cited the increasing customer acceptance of ATMs and confirmed that the bank's planned installation of eight ATMs in 1982 was achieved. He noted also that Maine Savings has upped its plans for 1983 installations from six to eight units.

Fulfilled ATM Plans

The Howard Savings Bank planned to install 16 ATMs in 1982 and did just that. Fifteen are on-premise units, and one is in an off-premise shopping center location, where provision has been made for a second unit to be installed at a later date. This year The Howard plans to install 14 more ATMs and, according to Sammon, "the 14 ATM target is realistic, although some of these installations could be stretched into 1984." Continuing, The Howard official said, "ATMs have a proven record of public acceptance, making this an opportune time for us to get into a service that we believe will be effective over the long term."

Plans for 1983 expansion of ATM services cited by these bank officials are in step with industry ATM installation plans revealed by **SBJ**'s survey data. According to the survey responses, "at least" 270 ATMs will be installed in 1983—we say "at least" because several savings bankers responding to the late-1982 survey indicated that while their bank would install ATMs in 1983, the exact number had not been determined. Also, some banks reached in **SBJ**'s telephone follow-up said their 1983 installation plans had been increased since they responded to **SBJ**'s survey last September. One such report came from Thomas F. Russo, vice president-banking systems at Jamaica Savings Bank, New York City. Russo told **SBJ** that his bank would install "four vestibule units this spring." The Jamaica Savings' questionnaire response last year had not indicated any ATM installation plans for this year.

On a regional basis, the majority of

Citizens Savings Bank, fsb, Ithaca, N.Y., last year installed this NCR 1770 free standing ATM in lobby of local NCR plant. Citizens also has several bank lobby vestibule ATMs, and one in a college campus student union building.

Who's who in correspondent services.

Linda A. Siedlecki, Correspondent Banking Officer
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new ATM installations has been in the six New England states. For example, at year-end 1981, savings banks in this region were operating 341 ATMs, including the 84 machines installed that year. And in 1982, New England savings banks reported plans to install 183 units and bring their overall total to 524 ATMs in operation. The next most active region consists of the five Middle Atlantic states—New York, New Jersey, Pennsylvania, Maryland and Delaware—where 215 ATMs were operated by savings banks at year-end 1981, including the 104 machines installed that year. Then, in 1982, savings banks in this region scheduled the installation of 161 more ATMs for a total of 376 units in place.

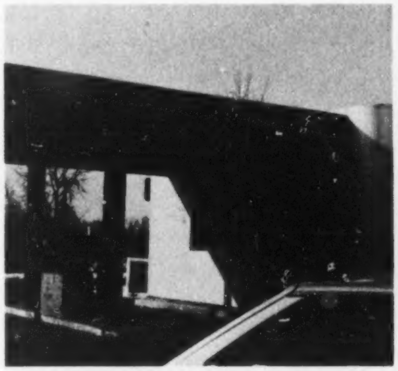
Regional Activity High

And this year, the survey responses of savings banks in both regions indicate continued strong ATM expansion—in New England, 148 new units are projected, and in the Middle Atlantic states the **SBJ** survey disclosed plans for 122 new units.

The **SBJ** survey also revealed, as expected, that the bulk of savings bank ATMs are on-premise units. Of the industry's total of 1,077 ATMs at year-end 1982, 731 were on-premise and 346 were in remote locations. But the survey also indicated that savings banks are turning to off-premise locations in their ATM plans. For example, of the 346 off-premise units in operation at the end of 1982, 132—or over 38%—were installed during the year. During 1981, savings banks installed only 43 ATMs in remote locations.

One reason for the lag in off-premise installations, according to some savings bankers, is the higher cost of building remote ATM facilities.

Donald Schroeder, deputy research officer at The Dime Savings Bank of New York, New York City, for example, noted that ATM hardware typically runs $25,000–$30,000 per unit. "Then, for a remote unit, add on the cost of additional communications devices, the cost of the building to house the ATM, the land it sits on, as well as the advertising and signage, and you're talking about a lot more money than the typical $50,000–$60,000 cost of renovating a vestibule and installing an on-premise ATM."



Customers of this Society for Savings, Hartford, Conn., drive-up facility, can bank with either drive-up "live" teller or 24-hour ATM, which is in wall alongside teller window. This free-standing drive-up facility is in corner of a branch office's parking lot.

American Savings' Yanak also cited the higher cost of building a remote ATM facility and added that "in some locations the expense can be prohibitive."

However, savings banks that have installed remote ATMs, or plan to, cited specific marketing factors that help make them cost-effective. For instance, Carol A. Themelis, vice president at The Merchants Savings Bank of Manchester, N.H., said the bank will soon begin operating an ATM in a free-stand-

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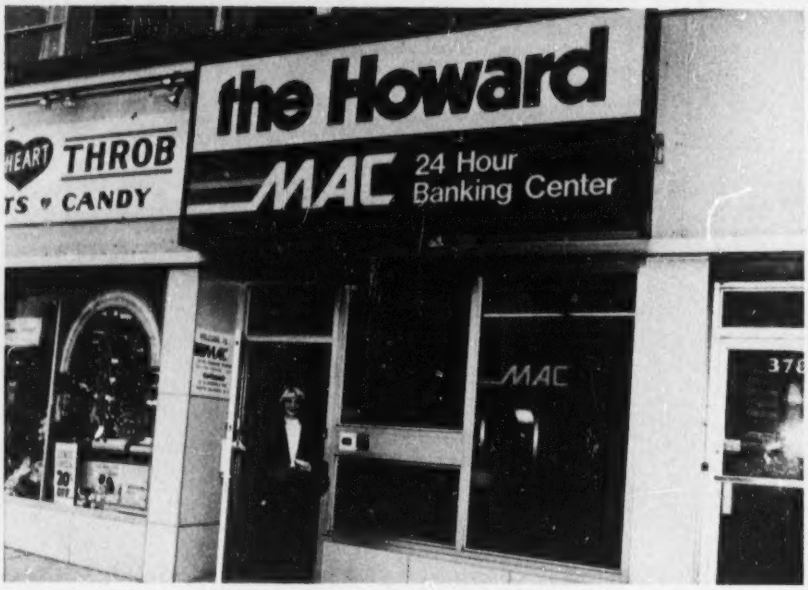
ing kiosk within a townhouse condominium project with a relatively high-population density. And, David G. Huckle, vice president at Citizens Savings Bank, fsb, Ithaca, N.Y., said his bank opened several off-premise ATMs last year in high-traffic locations—one in a factory lobby, and two others near mini-bank units the bank operates in student union buildings on college campuses. “The campus ATMs are extremely active,” Huckle said. “We plan to install one more remote unit on a college campus, and we're thinking of installing still another in a shopping mall parking lot.”



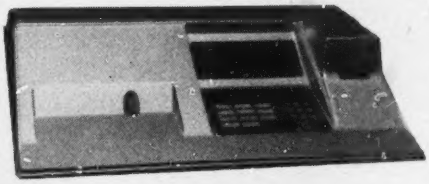
From outside it looks like any other retail store in Caldwell, N.J., shopping strip, but behind storefront is ATM unit of The Howard Savings Bank, Newark.

Reports High Usage

Citizen Savings' success with its on-campus ATMs, Huckle noted, is reflected in the 15,000–18,000 average transactions per month per campus machine. This is one of the highest average ATM usage rates reported to **SBJ.** The bank's other ATMs, Huckle said, are averaging 5,000–7,000 monthly transactions.

The Howard's Sammon cited another market-related reason for installing higher-cost remote ATMs. “We were turned down on an application for a full-service office in one location, so instead we put a remote unit on the site, and now we can at least provide some banking services to our customers in the area,” he said.

At New York City's Dime Savings, Schroeder differentiated between the transaction volume of the bank's lobby-floor machines—5,000 a month per machine—and the bank's vestibule ATMs



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which average 2,000 transactions per month per machine. Schroeder also pointed out that the "conventional wisdom," which holds that 4,000 transactions per month is the break-even point for ATMs, reflects commercial bank ATM transaction volumes. These are higher than at most thrifts, he said, because a commercial bank's ATM card base is derived from a larger number of checking account customers. Schroeder believes that a more accurate break-even guideline for thrifts "to determine if their machines are productive" is a rate of some "1,700 money transactions a month per machine."

Interestingly, it was the expectation of increasing its ATM transaction volumes that prompted Mechanics and Farmers Savings Bank of Bridgeport, Conn., to install five ATMs last year in addition to the six it operated at year-end 1981, and also to plan five more ATM installations this year. Raymond R. Miller, M&F's vice president-branch operations, explained that "by having an ATM at most of our offices we hope to heighten our electronic banking image, and make our customers more aware of them and the opportunity they provide for convenient banking."

M&F installed four on-premise ATMs and one off-premise unit last year, and this year it will install five more. Miller said the bank is "shooting for an average of 3,000 monthly transactions per machine as a break-even point. We're nowhere near that level now," he added.

Strong marketing efforts are the means by which the Maine Savings Bank has increased its ATM usage by customers, Juenemann noted. Last summer, the bank used media advertisements and direct mail to promote its ATMs and, subsequently, he said, customer usage of the machines has increased by 51%. In September 1982, total transactions on Maine Savings' eight ATMs were 12,760, and by December the total was over 19,300. "We expect that by mid-1985, our ATMs will be averaging 4,000 transactions per machine, per month—the classic break-even point," he said.

Aim at Cost Savings

For some savings banks, the bottom-line reason for offering ATM service is the expectation of ultimately reducing costs. This is what Society for Savings, Hartford, Conn., had in mind, explained Vice President William E. Zable, when it installed 20 ATMs in 1982, including a drive-up ATM located in the corner of a branch office parking lot.

Cost reduction was the goal also of Attleborough Savings Bank, Attleboro, Mass., which installed three ATMs last year, including one at its main office. Soon after the latter's installation, the bank was able to eliminate Saturday morning banking hours at the main office.

Similarly, Jamaica Savings Bank, New York City, used its ATMs to reduce evening and Saturday banking hours at some of its branches. In addition, explains the bank's Tom Russo, it was able to avoid Saturday morning and Friday evening hours at its main office, which customers were requesting, by installing a vestibule ATM instead. Said Russo, "We've had no complaints from customers."

But Russo also observed that "it's best not to regard ATMs only as short-range labor saving devices. Actually," he explained, "these machines should be part of a bank's overall strategic plan to provide services in such a way that customers can choose the level of service they want and for which they're willing to pay." **(END)**

- Personal & Business Checking Accounts
- Savings & Certificate Accounts
- Revolving Credit
- Short Term Working Capital Loans
- Business Term Loans
- Equipment Financing
- SBA Financing
- Anchor Money Market Investment
- Auto & Boat Loans
- Personal Loans
- Retirement Plans–Personal and/or for Employees
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100 Largest Savings Banks

THE DECEMBER surge in industry deposit flows holds promise for the months ahead, but it could not overcome the industry's previous monthly deposit outflows in the latter half of 1982. And as a result, the $1.5 billion six-month deposit gain recorded through Dec. 31, 1982, by the 100 largest savings banks was entirely interest credited.

At year-end 1982, deposits of the nation's 100 largest savings banks totaled $118.7 billion, compared to the $117.2 billion they held at the end of last June. Though the overall deposit increase was slim, there were many changes in the rankings of the 100 largest—more than 60 of the banks moved up at least one notch and of these, 17 jumped five or more steps in rank.

Many of the large advances were the result of mergers between savings banks and savings banks mergers of S&Ls. For example, the Union Warren Savings Bank, Boston, which last November merged the $129 million-deposits Milton (Mass.) Savings Bank, jumped up 18 steps to number 66. This was the steepest advance of any of the 100 largest, but it was followed closely by the 17-notch climb of The Liberty Bank For Savings, Middletown, Conn., to number 77. The Liberty acquired the Willimantic (Conn.) Savings and Loan Association last September.

Some of the other 100 largest which moved up on the list, and were involved in acquisitions in the last half of 1982, include the Maine Savings Bank, Portland, which merged the 1st Consumers Savings Bank, Augusta, and advanced 14 notches, the Neworld Savings Bank, Boston, which on January 1 merged the Bass River Savings Bank, South Yarmouth, Mass., and climbed 13 places, and the Mechanics and Farmers Savings Bank, Bridgeport, Conn., which merged the New Canaan Savings Bank, and moved up seven places. The $2 billion-plus Anchor Savings Bank, fsb, Northport, N.Y. acquired three small S&Ls, one in New York and two in Georgia, and moved up four notches to number 10. Similarly, the $2.2 billion Peoples Savings Bank-Bridgeport, Conn., acquired an S&L in its home city and moved up one step. The American Savings Bank, New York City, though, merged the $770 million United Mutual Savings Bank of New York City and climbed up three numbers.

The largest merger of savings banks reflected in this 100 largest listing is that of the $2.5 billion-deposits Dollar Savings Bank and $2 billion-deposits Dry Dock Savings Bank, both of New York City, and this merged bank is included in the list even though the consolidation was completed last month. The Dollar had been ninth and the Dry Dock 15th; combined they rank sixth in the standings.

Not all of the 100 largest savings banks that moved up did so because of mergers. The Society for Savings, Hartford, Conn., for example, advanced nine steps to 15th without benefit of merger. And the bank's President and CEO Elliott C. Miller suggests that its upward change in ranking was the result both of "better than average performance" and shifts by other savings banks on the list. Other savings banks which moved up for these reasons include the BancOne of Connecticut, Bridgeport, up eight steps; The Banking Center, Waterbury, Conn., up seven; and the New England Savings Bank, New London, Conn., up seven.

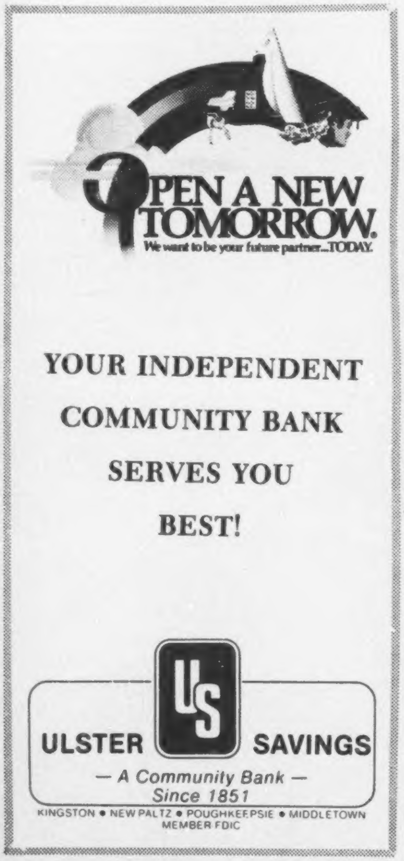
Savings banks that are first-comers to the 100 largest list are the Savings Bank of Puget Sound, Seattle, Wash., and three from Connecticut: the State Bank for Savings, Hartford, The Norwich Savings Society, and the South Norwalk Savings Bank.

Rank on 12-31-82		Deposits in thousands of dollars	Rank on 6-30-82
1.	The Philadelphia (Pa.) Saving Fund Society	$8,681,728	1.
2.	Goldome Bank For Savings, Buffalo, N.Y.	7,601,221	2.
3.	The Dime Savings Bank of New York, New York City	5,622,943	3.
4.	Metropolitan Savings Bank, New York City	5,298,927	4.
5.	The Bowery Savings Bank, New York City	4,568,015	5.
6.	Dollar-Dry Dock Savings Bank of New York, New York City	4,504,122	—.
7.	The Howard Savings Bank, Newark, N.J.	2,945,337	6.
8.	American Savings Bank, New York City	2,898,123	11.
9.	Emigrant Savings Bank, New York City	2,766,917	7.
10.	Anchor Savings Bank, fsb, Northport, N.Y.	2,420,671	14.
11.	The Manhattan Savings Bank, New York City	2,204,238	10.
12.	People's Savings Bank-Bridgeport, Conn.	2,172,463	13.
13.	Washington Mutual Savings Bank, Seattle	2,065,590	16.
14.	The Williamsburgh Savings Bank, New York City	2,029,874	12.
15.	Society for Savings, Hartford, Conn.	1,781,596	24.
16.	Hudson City Savings Bank, Paramus, N.J.	1,706,240	17.
17.	The Lincoln Savings Bank, New York City	1,698,393	18.
18.	The Greater New York Savings Bank, New York City	1,683,963	19.
19.	East River Savings Bank, New York City	1,637,759	23.
20.	Albany (N.Y.) Savings Bank, fsb	1,613,803	20.

100 Largest Savings Banks

Rank on 12-31-82		Deposits in thousands of dollars	Rank on 6-30-82
21.	Beneficial Mutual Savings Bank, Philadelphia, Pa.	1,553,720	22.
22.	The Seamen's Bank for Savings, New York City	1,519,381	21.
23.	Harlem Savings Bank, New York City	1,399,992	25.
24.	The Green Point Savings Bank, New York City	1,348,668	27.
25.	Germantown Savings Bank, Bala-Cynwyd, Pa.	1,289,791	26.
26.	Dollar Savings Bank, Pittsburgh, Pa.	1,268,373	28.
27.	The Community Savings Bank, Rochester, N.Y.	1,143,979	30.
28.	Jamaica Savings Bank, New York City	1,129,351	29.
29.	The Long Island Savings Bank, fsb, New York City	1,128,823	31.
30.	East New York Savings Bank, New York City	1,113,802	35.
31.	The Savings Bank of Baltimore, Md.	1,078,862	33.
32.	Peoples Westchester Savings Bank, Hawthorne, N.Y.	1,045,637	32.
33.	Mutual Bank For Savings, Boston, Mass.	1,015,600	36.
34.	The Boston (Mass.) Five Cents Savings Bank	1,002,041	34.
35.	Independence Savings Bank, New York City	957,548	38.
36.	Rochester (N.Y.) Savings Bank	952,772	39.
37.	Onondaga Savings Bank, Syracuse, N.Y.	948,434	37.
38.	Syracuse (N.Y) Savings Bank	911,551	40.
39.	Neworld Bank, Boston, Mass.	903,058	52.
40.	Connecticut Savings Bank, New Haven	811,645	43.
41.	Ridgewood Savings Bank, New York City	809,235	44.
42.	Wilmington (Del.) Savings Fund Society	798,428	47.
43.	The New Haven (Conn.) Savings Bank	792,421	45.
44.	The Provident Institution for Savings, Boston, Mass.	788,132	41.
45.	Roosevelt Savings Bank, New York City	786,222	42.
46.	Citizens Savings Bank, Providence, R.I.	739,669	50.
47.	The Morris County Savings Bank, Morristown, N.J.	732,506	48.
48.	The Queens County Savings Bank, New York City	695,484	49.
49.	The Banking Center, Waterbury, Conn.	679,064	56.
50.	Provident Savings Bank of Baltimore, Md.	678,134	53.
51.	Provident Savings Bank, Jersey City, N.J.	678,093	51.
52.	Home & City Savings Bank, Albany, N.Y.	674,047	54.
53.	Eastern Savings Bank, New York City	650,206	57.
54.	Hamburg Savings Bank, New York City	645,947	55.
55.	The Roslyn (N.Y.) Savings Bank	635,377	59.
56.	Richmond Hill Savings Bank, New York City	623,469	58.
57.	Maine Savings Bank, Portland	607,701	71.
58.	Monroe Savings Bank, Rochester, N.Y.	601,000	60.
59.	The Binghamton (N.Y.) Savings Bank	596,997	61.
60.	Mechanics and Farmers Savings Bank, Bridgeport, Conn.	584,694	67.
61.	Springfield (Mass.) Institution for Savings	542,734	65.
62.	The Savings Bank of Utica, N.Y.	536,507	62.
63.	Staten Island Savings Bank, New York City	532,598	63.
64.	The Dime Savings Bank of Williamsburgh, New York City	528,911	64.
65.	American Savings Bank, New Britain, Conn.	527,000	69.
66.	Union Warren Savings Bank, Boston, Mass.	521,710	84.
67.	Worcester (Mass.) County Institution for Savings	518,239	66.
68.	New Brunswick (N.J.) Savings Bank	494,760	72.
69.	Harmonia Savings Bank, Elizabeth, N.J.	487,036	68.
70.	Orange Savings Bank, Livingston, N.J.	481,835	70.
71.	South Boston Savings Bank, Boston, Mass.	473,807	77.
72.	Eastern Savings Bank, Lynn, Mass.	454,307	78.
73.	North Side Savings Bank, New York City	447,358	73.
74.	Amoskeag Savings Bank, Manchester, N.H.	445,271	79.
75.	Bloomfield (N.J.) Savings Bank	430,431	74.
76.	The Poughkeepsie (N.Y.) Savings Bank, fsb	429,606	75.
77.	The Liberty Bank For Savings, Middletown, Conn.	420,659	94.

Rank on 12-31-82		Deposits in thousands of dollars	Rank on 6-30-82
78.	Mechanics Savings Bank, Hartford, Conn.	414,104	80.
79.	Lincoln Mutual Savings Bank, Spokane, Wash.	396,322	82.
80.	The Home Savings Bank, White Plains, N.Y.	393,733	33.
81.	The Perth Amboy (N.J.) Savings Institution	390,242	81.
82.	New Bedford (Mass.) Institution for Savings	388,976	87.
83.	Burlington (Vt.) Savings Bank	388,381	88.
84.	Eastchester Savings Bank, Mount Vernon, N.Y.	372,796	86.
85.	Riverhead (N.Y.) Savings Bank	371,888	89.
86.	New England Savings Bank, New London, Conn.	370,550	93.
87.	The Troy (N.Y.) Savings Bank	367,142	85.
88.	The Permanent Savings Bank, Niagara Falls, N.Y.	363,127	76.
89.	Heritage Savings Bank, Waterville, Me.	353,279	90.
90.	BancOne of Connecticut, Bridgeport	351,252	98.
91.	Peoples Savings Bank, Worcester, Mass.	349,406	92.
92.	Woonsocket (R.I.) Institution for Savings	347,920	97.
93.	Community Savings Bank, Holyoke, Mass.	340,451	91.
94.	Richmond County Savings Bank, New York City	336,615	95.
95.	National Savings Bank, Albany, N.Y.	332,719	96.
96.	State Bank for Savings, Hartford, Conn.	328,484	—.
97.	The Norwich (Conn.) Savings Society	325,520	—.
98.	South Norwalk (Conn.) Savings Bank	322,483	—.
99.	Savings Bank of Puget Sound, Seattle, Wash.	320,844	—.
100.	Cambridge (Mass.) Savings Bank	319,877	100.
	Total deposits, 100 largest	$118,740,657	
	Total deposits, all savings banks	$155,224,836	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national mortgage markets

May end auctions. The Federal National Mortgage Association is "strongly" considering ending its biweekly auctions of four-month commitments to buy mortgage loans because of a lack of interest from lenders, the agency confirmed last month.

"We have not said when the date may be, but there is a strong possibility we may end them," a spokesman said.

FNMA said that its February 2 auction marked the third consecutive auction and the sixth since last September in which the agency rejected all bids because there were not enough competitive bids and the yields did not meet minimum acceptance levels. The auctions have been held since mid-1968.

According to FNMA, lenders prefer participating in the agency's mandatory delivery programs which have shorter 30- and 60-day delivery periods, therefore enabling lenders to peg their mortgage yields to the market. In addition, lenders can make negotiated sales to FNMA.

FNMA said the auctions "have become an increasingly negligible part of our business." Last year, only 15% of all mortgages purchased came from the auctions.

Acquires real estate firm. The $98.1 million-assets Leominster (Mass.) Savings Bank recently expanded its mortgage banking operation by acquiring a one-office real estate company in Marco Beach, Fla.

The real estate company will refer mortgage originations to Leominster Savings' mortgage banking subsidiary when it expands into Florida in the near future, explained Richard Bergman, Leominster's senior vice president and treasurer. The bank's mortgage banking operation, a wholly owned subsidiary called Hallmark Mortgage, is based in Nashua, N.H., and also has an office in Leominster.

Hallmark was established in early 1981 and originates mortgages for sale in the secondary market; it currently also sells the mortgage servicing.

The bank's acquisition of Marco Beach Realty is its first acquisition under leeway authority. The real estate company recorded sales of half a billion dollars since 1974.

Sells co-op loans. New York City's Lincoln Savings Bank was the only savings bank through January to sell co-op loans to the Federal National Mortgage Association under a pilot program operating in the agency's Northeast region. Earlier, Chase Manhattan Bank and Chemical Bank, also of New York City, participated in the program.

However, a FNMA spokesman last month said the agency is "talking" to other lenders about negotiated purchases of co-op loans, and is looking to do business only with experienced co-op lenders. The program began last May.

The Lincoln Savings Bank sale was completed October 12 and consisted of 68 co-op loans totaling $3.275 million. FNMA purchased 90% of the loans and received a yield of 15.125%; the Lincoln retained 10% ownership and servicing. The majority of the loans were originated in 1981 at an average 17% rate.

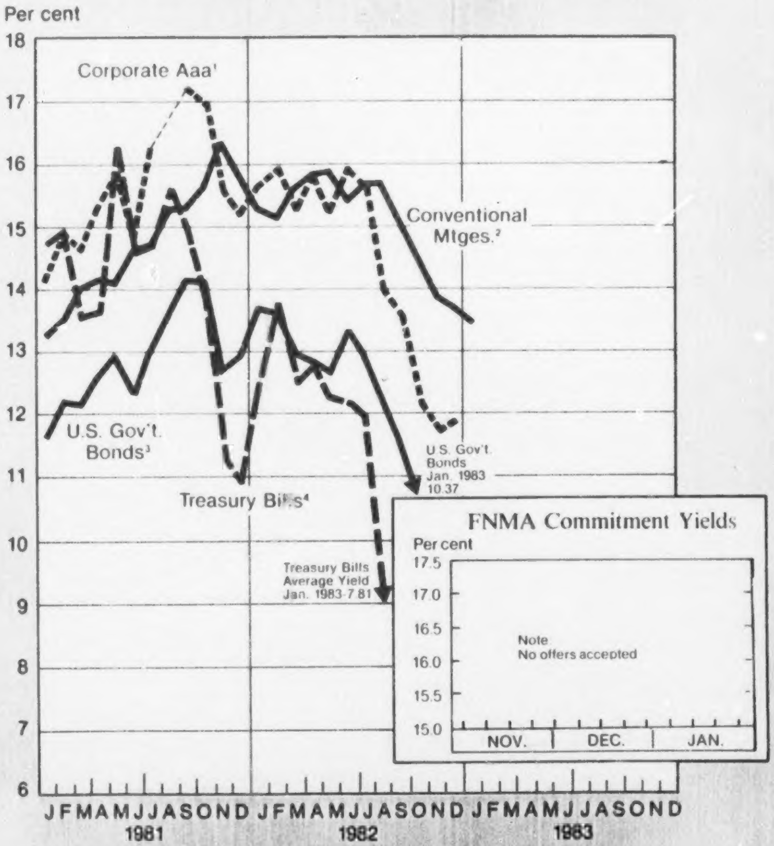
Covington Hardee, chairman, president and CEO of the $2.1 billion-assets Lincoln, said the sale will enable the bank to make additional co-op loans. Lincoln's co-op loan portfolio currently totals $16 million.

Reduces stock requirement. The Federal National Mortgage Association recently revamped its stock requirement so that servicers of whole mortgages only have to hold one share of the agency's common stock, regardless of the size of new servicing portfolios.

Prior to the new rule, which took effect February 1, lenders had to hold specified shares of common stock based on the dollar amount of loans serviced. That requirement still applies for whole loans sold to FNMA before February 1.

The minimal stock requirement was already in effect for loans sold in participations or in mortgage-backed securities.

SBJ Money and Capital Market Yield Trends



MARKET YIELD TRENDS – 1. New issues. 2. Effective rate for purchase of new single-family homes. 3. Maturing or callable in 10 years or more. 4. Three months, new issue rate.
FNMA COMMITMENT YIELDS – Data are average yields on mortgage commitment bids accepted by the Federal National Mortgage Association at its biweekly auctions. Data are for 120-day bids. Yields are gross of 3/8% servicing fee. Figures assume 30-year mortgages with an assumed prepayment period of 12 years.

savings bank statistics

Money market accounts bolster industry deposit flows ■ Mortgage lending begins to show signs of recovery

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1978	−591	−.45	7,697	5.80
1979	−6,962	−4.93	2,659	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
Monthly				
1982				
Aug.	−809	−.53	123	.08
Sept.	−881	−.59	999	.67
Oct.	−1,825	−1.21	−979	−.65
Nov.	−1,445	−.96	−596	−.40
Dec.	1,462	.98	3,416	2.29
1983				
Jan. (Est.)	875	.57	1,675	1.10

State	Change by States							
	December 1982				December 1981			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	374	2.50	547	3.65	−86	−.61	43	.30
Me.	39	1.48	58	2.19	−25	−.97	−4	−.17
Md.	6	.34	14	.74	3	.15	9	.53
Mass.	87	.40	272	1.25	−226	−1.05	−62	−.29
N.H.	38	1.44	55	2.12	−37	−1.44	−18	−.72
N.J.	−55	−.59	16	.17	−60	−.66	22	.24
N.Y.	686	.91	1,895	2.52	−654	−.84	905	1.16
−City	554	1.10	1,420	2.82	−458	−.85	731	1.35
−Upstate	132	.53	476	1.92	−197	−.82	175	.73
Penn.	−69	−.53	65	.50	−158	−1.21	−10	−.08
R.I.	41	2.20	65	3.50	−17	−.97	6	.36
Vt.	37	5.24	47	6.52	*	−.06	8	.88
Wash.	237	7.31	312	9.64	−23	−.61	51	1.34
TOTAL	1,462	.98	3,416	2.29	−1,268	−.84	1,032	.68

Note: Regular deposits excludes special purpose accounts such as checking, school and club. Total includes states not shown separately. Est.—estimated. *less than $500,000.

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings[2]	Time			
											Market-linked[3]	Other		
Year-end														
1977	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	—	54,739	3,292	9,978
1978	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	13,000	56,354	4,565	10,907
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
1981	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
Month-end														
1982														
Feb.	98,838	14,030	9,966	2,293	20,186	3,565	26,885	175,763	154,626	48,297	82,997	21,321	11,464	9,672
Mar.	97,464	13,738	10,072	2,276	20,166	3,475	27,585	174,776	154,021	48,412	83,402	20,164	11,132	9,622
Apr.	97,160	13,793	10,146	2,269	20,256	3,424	27,765	174,813	153,187	47,733	83,992	19,296	12,141	9,485
May	96,334	13,990	9,968	2,259	20,079	3,417	28,905	174,952	153,354	47,895	84,898	18,460	12,246	9,352
June	96,364	14,077	10,217	2,240	19,153	3,382	29,792	175,225	154,392	47,977	85,718	18,573	11,263	9,570
July	96,282	14,103	10,058	2,236	19,137	3,411	30,457	175,683	154,314	47,580	86,289	18,101	11,926	9,443
Aug.	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
Sept.	94,382	13,740	9,404	2,191	18,839	3,266	31,667	173,487	153,089	47,496	85,561	17,738	11,166	9,232
Oct.	94,261	13,894	9,219	2,505	18,488	3,217	31,324	172,908	152,210	48,520	83,775	17,633	11,556	9,141
Nov.	94,017	13,950	9,456	2,496	18,598	3,205	30,566	172,287	151,304	49,208	81,997	17,962	11,893	9,089
Dec.	94,452	14,181	9,685	2,500	18,889	3,216	31,281	174,204	155,225	56,548	79,495	16,692	9,741	9,238
1983														
Jan. (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	156,850	n.a.	72,985	n.a.	n.a.	n.a.
% of Total Assets														
Dec. 31, 1982	54.2	8.1	5.6	1.4	10.8	1.8	18.0	100.0	89.1	32.5	45.6	9.6	5.6	5.3
Change during month	306	218	229	4	291	11	682	1,742	3,764	7,320	−2,577	−1,326	−2,170	148

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items. n.a.—not available. Est.—estimated. Source: NAMSB.

[1] — Total deposit figures include checking, school, club and certain other accounts not shown separately.

[2] — Savings figures include MMDAs.

[3] — Market-linked figures include 91-day, 6-mo. MMCs, 30-mo. SSCs, and All Savers Certificates.

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Vol. 64 No. 2

Since NAMSB 1920

April, 1983

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ABC SNAP

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datory delivery on loans sold through the weekly auctions, and a 90- and 180-day mandatory delivery on loans swapped through the bi-monthly auctions.

Citing the need for a closer link with the capital market and an expected increase in secondary market activity, Freddie Mac President Kenneth J. Thygerson said in announcing the program changes that daily pricing "offers tremendous flexibility for selling, hedging and for doing really fine-tuning in the secondary market."

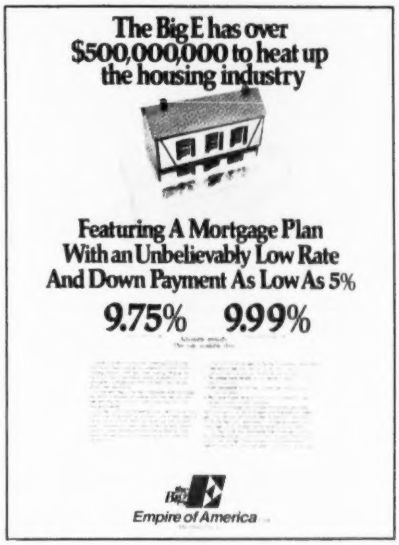
No more auctions at FNMA. The Federal National Mortgage Association last month announced it had discontinued its biweekly auctions of optional delivery commitments to purchase mortgages, and instead directed lenders to the agency's "open window" commitments. FNMA had confirmed in February that it was planning such a move (March National Mortgage Markets).

Under its open window program, yields are posted daily, thereby better reflecting market conditions, and mandatory delivery of mortgages is required.

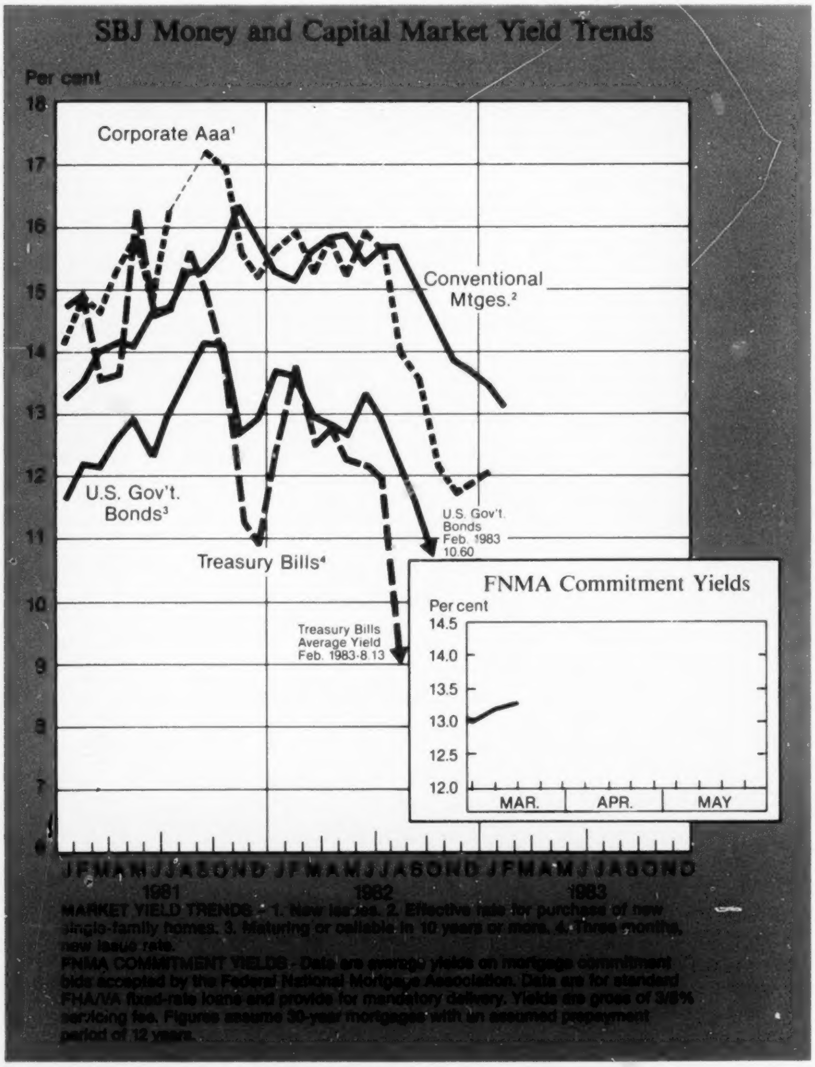
FNMA said it discontinued its biweekly auctions, in place since 1968, because of declining activity. Instead, lenders have increasingly used the open window since its introduction in June 1981 because it has lower fees and lower yields. Yields are .25%–.50% lower than they were at the auctions, and commitment fees are 1%–1.25%, depending on the term, compared to 2% at the auctions.

Offers low rate loans. Empire of America, fsa, Buffalo, N.Y., last month undercut the nation's mortgage markets by introducing a one-year adjustable mortgage at a 9.75% rate. It targeted $500 million for these loans through June 1.

As would be expected, consumer demand erupted for Empire's low-rate loans. The day the announcement broke in the Buffalo area, on March 8, "people lined up at our branches and phones were ringing off the hook. The mortgage department was backed up all day," an Empire spokeswoman said.


The Big E has over $500,000,000 to heat up the housing industry
Featuring A Mortgage Plan With an Unbelievably Low Rate And Down Payment As Low As 5%
9.75%
9.99%
Empire of America

Launches low-rate loan program.



MARKET YIELD TRENDS - 1. New issues. 2. Effective rate for purchase of new single-family homes. 3. Maturing or callable in 10 years or more. 4. Three months, new issue rate.

FNMA COMMITMENT YIELDS - Data are average yields on mortgage commitment bids accepted by the Federal National Mortgage Association. Data are for standard FHA/VA fixed-rate loans and provide for mandatory delivery. Yields are gross of 3/8% servicing fee. Figures assume 30-year mortgages with an assumed prepayment period of 12 years.

The next day Empire introduced the 9.5% Big E Adjustable Rate Mortgage in its other market areas in New York State, Florida, Michigan and Texas. The $500 million available in these loans is not apportioned between the regions in any way.

The $6.3 billion-assets Empire has set a maximum annual rate adjustment of 2%, with no overall cap, on the ARM and will base the adjustment on the one-year Treasury security index. Other terms include a 2% origination fee, 5% down-payment requirement, maximum 30-year maturity, no prepayment penalties, and full assumability with credit approval of the purchaser plus a 1% fee. In contrast, Empire also offered a five-year ARM at 12% plus a 2% origination fee, and a fixed-rate mortgage at 12.5% plus 2.5%, both of which at the time were slightly below the respective nationwide averages for these loans of 12.4% and 12.9%.

Paul A. Willax, Empire's president and CEO, said the new one-year ARM mortgage is a result of "substantial growth" in money market deposit accounts, and the need to develop "shorter term asset products to increase the spread between these short-term liabilities and corresponding assets."

Unlike its other mortgages, which it sells in the secondary market, Empire will retain the 9.5% Big E ARMs in its portfolio.

savings bank statistics

Money market accounts spark record deposit gains ■ Industry borrowings decline

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1978	−591	−.45	7,697	5.80
1979	−6,962	−4.93	2,659	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
Monthly				
1982				
Sept.	−881	−.59	999	.67
Oct.	−1,825	−1.21	−979	−.65
Nov.	−1,445	−.96	−596	−.40
Dec.	1,462	.98	3,416	2.29
1983				
Jan.	1,163	.76	2,059	1.35
Feb. (Est.)	1,300	.84	2,100	1.36

State	Change by States							
	January 1983				January 1982			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	204	1.31	252	1.62	−49	−.34	72	.51
Me.	44	1.62	62	2.29	−7	−.28	13	.51
Md.	−13	−.71	8	.45	*	−.01	22	1.28
Mass.	239	1.09	423	1.92	−164	−.77	20	.09
N.H.	20	.74	42	1.58	−15	−.60	5	.21
N.J.	−31	−.33	49	.52	−22	−.24	48	.53
N.Y.	646	.84	1,039	1.35	−755	−.95	−457	−.58
−City	533	1.03	745	1.44	−603	−1.12	−437	−.81
−Upstate	113	.45	294	1.16	−152	−.60	−20	−.08
Penn.	−101	−.77	−7	−.05	2	.02	93	.71
R.I.	38	2.00	49	2.55	*	−.03	10	.59
Vt.	3	.42	8	1.07	−4	−.41	1	.11
Wash.	111	3.13	122	3.44	−20	−.53	−11	−.28
TOTAL	1,163	.76	2,059	1.35	−1,062	−.69	−202	−.13

Note: Regular deposits excludes special purpose accounts such as checking, school and club. Total includes states not shown separately. Est.—estimated. *less than $500,000.

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
											Time			
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings[2]	Market-linked[3]	Other		
Year-end														
1977	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	—	54,739	3,292	9,978
1978	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	13,000	56,354	4,565	10,907
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
1981	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
Month-end														
1982														
Mar.	97,464	13,738	10,072	2,276	20,166	3,475	27,585	174,776	154,021	48,412	83,402	20,164	11,132	9,622
Apr.	97,160	13,793	10,146	2,269	20,256	3,424	27,765	174,813	153,187	47,733	83,992	19,296	12,141	9,485
May	96,334	13,990	9,968	2,259	20,079	3,417	28,905	174,952	153,354	47,895	84,898	18,460	12,246	9,352
June	96,364	14,077	10,217	2,240	19,153	3,382	29,792	175,225	154,392	47,977	85,718	18,573	11,263	9,570
July	96,282	14,103	10,058	2,236	19,137	3,411	30,457	175,683	154,314	47,580	86,289	18,101	11,926	9,443
Aug.	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
Sept.	94,382	13,740	9,404	2,191	18,839	3,266	31,667	173,487	153,089	47,496	85,561	17,738	11,166	9,232
Oct.	94,261	13,894	9,219	2,505	18,488	3,217	31,324	172,908	152,210	48,520	83,775	17,633	11,556	9,141
Nov.	94,017	13,950	9,456	2,496	18,598	3,205	30,566	172,287	151,304	49,208	81,997	17,962	11,893	9,089
Dec.	94,452	14,181	9,685	2,500	18,889	3,216	31,281	174,204	155,225	56,548	79,495	16,692	9,741	9,238
1983														
Jan.	93,883	14,069	10,244	2,453	19,131	3,171	31,768	174,720	157,161	64,891	73,598	16,429	8,356	9,204
Feb. (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	159,211	n.a.	69,974	n.a.	n.a.	n.a.
% of Total														
Assets														
Jan. 31, 1983	53.7	8.1	5.9	1.4	10.9	1.8	18.2	100.0	89.9	37.1	42.1	9.4	4.8	5.3
Change during month	−167	*	534	−27	231	16	−115	472	1,904	8,403	−5,476	−868	−1,391	−42

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items. n.a.—not available. Est.—estimated. * less than $500,000.

[1]— Total deposit figures include checking, school, club and certain other accounts not shown separately.

[2]— Savings figures include MMDAs.

[3]— Market-linked figures include 91-day, 6-mo. MMCs, 30-mo. SSCs, and All Savers Certificates.

Source: NAMSB.

NOTE

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Savings Bank Journal

May 1983
Official publication of the National Association of Mutual Savings Banks

- A 6850-2 -

6/17/83

Interstate Banking Bills Move Ahead in New England States

Consumer Loan Collections—After Hours

Pricing Tactics to Boost Commercial Loan Profits

Operations Conference Report...

...on the Battle for Market Share...New Product Strategies...ATM Costs...Discount Brokerage ... Delivery Systems ... Withholding Operations ... more

Also: FDIC Insurance Retained in Federal Charter Conversions ■ Interest Withholding—a Compromise ■ NAMSB Chairman Completes Term ■ States Weigh Bills on Stock Form ■ Market Strong for Thrift Stock

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"More Than 60 Years of Continuous Publication"

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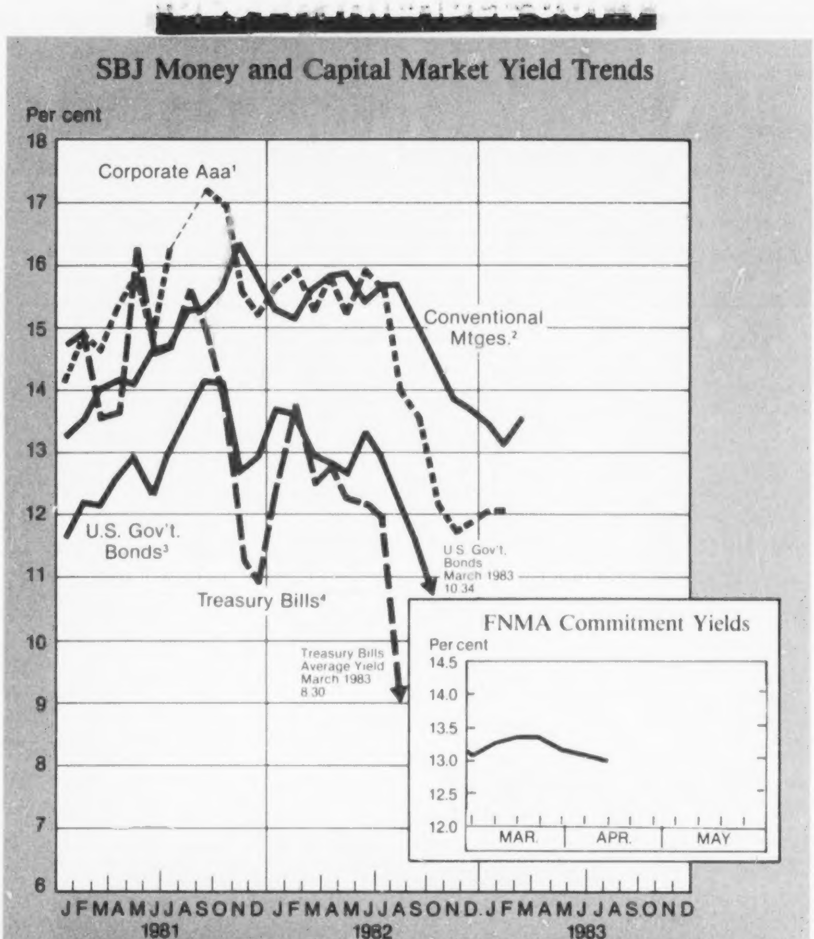

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national mortgage markets

Public offering of FNMA securities. The successful public offering of FNMA-backed securities by Empire of America, fsa, Buffalo, N.Y., in late March has broad implications for secondary market activity, and led some underwriters to predict that more thrifts will turn to public sales, rather than private placements, to sell loans.

Empire's sale of $345 million of mortgage-backed securities represented the first time a lending institution, and not Fannie Mae, went public with mortgage-securities guaranteed by the secondary market corporation.

Underwriters attributed the securities' immediate sell-out and favorable price to the Fannie Mae guarantee and the serialized approach to the mortgage pool backing the securities. The mortgages had remaining terms of 10, 15, 20 and up to 28 years and were geographically dispersed in Florida, Michigan, New York and Texas, where Empire has divisions. The sale was underwritten by Lehman Brothers Kuhn Loeb.

The securities carried coupons of 4% to 10% and were immediately bought out by investors at prices ranging from 71.625 to 90.375. Fannie Mae officials noted the securities sold at a spread over Government National Mortgage Association securities offered the same day, and was comparable to that which FNMA itself obtains.

A Fannie Mae spokeswoman last month said that other lending institutions had yet to follow Empire's lead and request a Fannie Mae guarantee.

Housing costs fall within reach. Mortgage production volumes should continue to increase in the months ahead, judging by the most recent "New Housing Affordability Index" compiled by the National Association of Home Builders. The index shows that the number of families who can qualify for home ownership has increased for the fifth consecutive quarter.

Preliminary figures for the first quarter of 1983 show that the affordability index rose to 82.6, 17% more than the low point of 70.4 during the fourth quarter of 1981. The base year, averaging 100 on the index, was 1977.

savings bank statistics

Savings banks gain new deposits for fourth consecutive month ■ Bottom-line losses shrink

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1978	−591	−.45	7,697	5.80
1979	−6,962	−4.93	2,659	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
Monthly				
1982				
Oct.	−1,825	−1.21	−979	−.65
Nov.	−1,445	−.96	−596	−.40
Dec.	1,462	.98	3,416	2.29
1983				
Jan.	1,163	.76	2,059	1.35
Feb.	1,207	.78	2,021	1.30
Mar. (Est.)	400	.25	2,500	1.59

State	Change by States							
	February 1983				February 1982			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	109	.69	288	1.82	59	.42	175	1.23
Me.	27	.97	45	1.60	−2	−.08	17	.66
Md.	2	.10	13	.67	*	−.01	12	.69
Mass.	241	1.07	357	1.59	−48	−.22	109	.51
N.H.	18	.66	37	1.37	2	.05	22	.88
N.J.	43	.46	98	1.04	−19	−.20	42	.45
N.Y.	610	.78	920	1.18	−239	−.30	105	.13
−City	510	.97	705	1.34	−204	−.38	−13	−.02
−Upstate	100	.39	215	.84	−35	−.14	118	.46
Penn.	38	.29	115	.87	15	.11	103	.78
R.I.	16	.83	27	1.38	−11	−.64	−2	−.10
Vt.	10	1.35	15	1.95	*	.02	4	.51
Wash.	79	2.15	92	2.52	−26	−.67	−15	−.40
TOTAL	1,207	.78	2,021	1.30	−264	−.17	579	.38

Note: Regular deposits excludes special purpose accounts such as checking, school and club. Total includes states not shown separately. Est.—estimated. *less than $500,000.

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings[2]	Time			
											Market-linked[3]	Other		
Year-end														
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
1981	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
Month-end														
1982														
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May	96,334	13,990	9,968	2,259	20,079	3,417	28,905	174,952	153,354	47,895	84,898	18,460	12,246	9,352
June	96,364	14,077	10,217	2,240	19,153	3,382	29,792	175,225	154,392	47,977	85,718	18,573	11,263	9,570
July	96,282	14,103	10,058	2,236	19,137	3,411	30,457	175,683	154,314	47,580	86,289	18,101	11,926	9,443
Aug.	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
Sept.	94,382	13,740	9,404	2,191	18,839	3,266	31,667	173,487	153,089	47,496	85,561	17,738	11,166	9,232
Oct.	94,261	13,894	9,219	2,505	18,488	3,217	31,324	172,908	152,210	48,520	83,775	17,633	11,556	9,141
Nov.	94,017	13,950	9,456	2,496	18,598	3,205	30,566	172,287	151,304	49,208	81,997	17,962	11,893	9,089
Dec.	94,452	14,181	9,685	2,500	18,889	3,216	31,281	174,204	155,225	56,548	79,495	16,692	9,741	9,238
1983														
Jan.	93,883	14,069	10,244	2,453	19,131	3,171	31,768	174,720	157,161	64,891	73,598	16,429	8,356	9,204
Feb.	93,545	14,266	11,076	2,446	19,370	3,214	32,453	176,370	159,193	69,727	71,187	16,025	7,972	9,205
Mar. (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	161,793	n.a.	70,137	n.a.	n.a.	n.a.
% of Total Assets Feb. 28, 1983	53.0	8.1	6.3	1.4	11.0	1.8	18.4	100.0	90.3	39.5	40.4	9.1	4.5	5.2
Change during month	−338	197	831	−7	239	43	685	1,650	2,032	4,836	−3,033	218	−384	1

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items. n.a.—not available. Est.—estimated.

[1]— Total deposit figures include checking, school, club and certain other accounts not shown separately.

[2]— Savings figures include MMDAs.

[3]— Market-linked figures include 91-day, 6-mo. MMCs, 30-mo. SSCs, and All Savers Certificates.

Source: NAMSB.

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At NAMSB's 63rd—and Last—Annual Conference

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Changing Consumer Lending Patterns

Also: End Nears in Withholding Battle ■ Propose Federal Deposit Insurance Costs Based on Risk ■ Student-Run Branch Earns High Marks ■ More Conversions To Stock Form ■ Sets Nationwide Thrift Franchise Network ■ NAMSB Staff Appointments, Changes

New NAMSB Chairman

Creative Commercial Loan Packaging

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MMDA INVESTMENT OPTIONS

the search goes on . . .

. . . for the 'perfect' MMDA/investment match. The author hasn't found one and admits that in the real world there probably isn't one. But he urges banks to keep trying for the best match, even though, he notes, they'll be choosing from assets that don't always yield enough, may be in short supply, or are not sufficiently rate sensitive.

by EDWARD H. LADD
President
Standish, Ayer & Wood
Boston, Mass.

IT WILL NOT be easy to make a profit on the new money market deposit account, and I believe that by the end of 1983 the combination of the money market account and the Super NOW may represent 25% of the deposits of the typical savings bank.

Some of this will represent new money drawn from the money market mutual funds, but a substantial number of transfers should also come from within the bank. The passbook savings accounts are particularly vulnerable. I also believe that the new money market account will supersede the 7–31-day deposit, the consumer repo, and probably the three-month money market certificate.

We are all aware that the starting rate of the new money market account ranged in the 10% to 12% area in most markets, and then declined to 9%–10%, and that the MMDA, in effect represents day-to-day money. We are also aware of the typical 200 basis points expense ratio needed to operate the average savings bank. The question then turns on whether we can find day-to-day, matched, high-grade, short-term assets providing the 200 basis point spread needed to break even on the MMDA money, realizing that just breaking even is not good enough.

Mixed Blessing

The money market account is a mixed blessing. On the positive side, I am generally in favor of deregulation, which I find philosophically attractive. It is difficult to justify the maintenance of artificial barriers on interest rates. In addition, I believe that the new money market account provides a significant avenue for thrift institutions to achieve deposit growth.

At the same time, there appear some significant MMDA negatives. First, there is the risk that the new money market accounts will attract major transfers from low-cost deposits with a substantially adverse impact on profitability. All of this comes at a time when the banking system badly needs those profits.

In addition, there will, of course, be a substantial shortening in the deposit life of thrift institution accounts, vastly compounding the existing painful asset/liability mismatch.

Nevertheless, we have to live with the new vehicles.

The first major question to address is the desirability of asset-liability matching. I must confess that I am a devout believer in asset/liability matching. We have pursued this concept for well over a decade. My own judgments were reinforced by a study I did in 1976 for NAMSB on foreign thrift institutions, which concluded that the U.S. thrifts were the only major financial institutions in the developed world which had not made strenuous efforts to insulate themselves from the interest rate risk.

Still Favors Matching

I have not changed my views on asset/liability matching despite the sharp decline in interest rates, beginning in 1982. We hear an increasing volume of complaints from some investors asking why, given the very high interest rates that prevailed early in 1982, we did not go into longer term bonds and reap the substantial profits. Our response is that:

- Major interest-rate guessing is not appropriate for thrifts;
- Thrift institutions assets have been structured to benefit from a decline in interest rates, but are hideously vulnerable in the event that interest rates increase; and that
- Matching is still appropriate.

Some managers, who vowed in 1981 never to guess yields, now say, in hindsight, it would have been desirable to go long-term, but I reject such a thesis because of the extreme degree of the mismatch which has prevailed. If there were only a modest mismatch, it seems to me it would allow some room for interest-rate guessing, but we have not had a modest mismatch. We have had a vast disparity on rates between long-term, fixed-rate assets and short-term interest-rate-sensitive liabilities.

As I look ahead, my conviction about asset/liability matching is no less fervent. The keys are the level of interest rates, the volatility of interest rates and our ability to predict interest-rate levels. These, in turn, relate to the level of inflation and the capital formation process.

True, inflation unwound in 1982, and we are optimistic that it will not be reignited in the near future. On the other hand, I am impressed by the new willingness of the Federal Reserve to create money, the huge and seemingly uncontrolled federal deficits, the broad expectations of our economy for reflation, the unwillingness to curb the entitlements program, and the general lack of economic and political self-discipline that exists in the United States.

Inflation Remains a Factor

While there are some arguments that disinflation will remain with us, I believe that the more compelling argument is that inflation is cyclically subdued but secularly alive and well.

I also suggest that we have serious cumulative problems in the capital formation area. These can be observed in the recurring federal deficits, the major housing needs and mortgage financing needs, the requirement that we rebuild our rather ancient capital stock, and the necessity of addressing the major problems of deterioration of the infrastructure in the United States.

Lastly, and most theoretically, American industry is basically undercapitalized. In the last few years we have deferred many of our capital requirements, and have not addressed them. I suggest that as we go through the balance of the decade, these major cumulative capital formation problems will result in the continuation of relatively high real interest rates.

As we look ahead, my conclusion is that interest rates will indeed be high, volatile and unpredictable. The existing mismatch is bad enough. With 25% of the deposits in day-to-day money, the mismatch will be worse. I believe we are compelled under these circumstances to attempt to match assets and liabilities.

Yield Spreads on Matched Alternatives

In many instances, savings banks are pricing the money market account off the three-month Treasury bill. The following table provides the spreads (based on discount yields) between three-month Treasury bills, commercial paper, and bankers acceptances.

Year	Treasury Bills	Commercial Paper	Bankers Acceptances	Spread Over Bills	
				Paper	Accept.
1978	7.19%	7.94%	8.11%	.75%	.92%
1979	10.07	10.97	11.04	.90	.97
1980	11.43	12.66	12.72	1.23	1.29
1981	14.03	15.32	15.32	1.29	1.29
1982	10.61	11.89	11.89	1.28	1.28
March '83	8.65	8.88	8.85	.23	.20

Sources: Federal Reserve Board, Standish, Ayer & Wood

It is apparent that the spreads are exceptionally narrow and insufficient to cover the typical savings bank expense ratio of about 2%. E.H.L.

Our first choice, therefore, should be to look upon matched alternatives, namely, very short-term or highly interest-rate-sensitive investments. The first such issues that come to mind are money market instruments, such as CDs, banker's acceptances, term federal funds, and Euro-CDs. Floating-rate notes also fall in this category. Unfortunately, these issues generally yield a little less than 9% at the moment (see table.) While some of these securities need to be included for liquidity purposes, there is clearly a negative spread based on the current pricing of the money market account.

With short-term securities, there is an increasing need to be imaginative when investing in order to get the best possible return. However, a number of savings bank portfolios in recent months have been, if anything, too imaginative. Specifically, I observe heavy concentrations of securities with significant risk. Recently, I saw a bank which has 50% of its surplus invested in the Euro obligations of a single Canadian bank.

Convergence Problem—Treasury Bill Futures

(Based on Late March Prices and Yields)

	Yield
Treasury Bill Futures—September Contract	8.99%
Deliverable Three-Month Treasury Bill	8.57
Spread	.42%

This crude example shows that if the yield curve remains the same and the yields of futures and the deliverable bill converge as the delivery date approaches, those institutions which have shorted Treasury bills will experience a loss. Alternately, interest rates will have to rise by 42 basis points before the institution receives any protection against an increase in interest rates.

I believe that increased attention must be placed on the risk tolerance of thrift institutions in an environment of high credit exposure.

Another short-term alternative which strikes me as attractive is unsecured prime-rate-sensitive commercial loans.

Over the long run I have considerable enthusiasm for thrifts developing commercial lending business. In the short-term, however, the problem is building adequate volume of commercial loans, particularly if my forecasts of the volume of money market accounts are correct. This is a particular problem under today's circumstances when commercial bank loan demand is weak.

Accordingly, I believe that short-term interest-rate-sensitive commercial loans represent a good long-term solution, but not a realistic short-term alternative.

Other types of short-term loans would also be desirable. These include education loans, which are relatively well indexed. Increasing consideration might be given to retaining these loans as they enter the collection phase. Short-term installment loans are also attractive (notwithstanding the heavy competition on rates from the major captive auto-finance companies). Consideration might be given to usage of variable rate installment loans.

There are also advantages in moving into the construction loan area in order to get good yields and, in many cases, significant points. However, the demand for construction loans is not that heavy in this economic environment.

I have not included variable rate mortgages in this list of matched short-term loans. While we have made substantial progress in recent years in developing additional variability, I do not think it is possible under current circumstances to have a fully adjustable mortgage which is compatible in maturity and interest-rate sensitivity to the money market account. It is my hope that we will develop such an instrument in time, but it will probably require negative amortization in order to be an enforceable instrument. That is further down the road. In any event, mortgage demand is relatively lackluster now.

Surveying the list of matched assets, we see that there is not sufficient volume of loans that provide both the spread and the match. Even as a devoted asset/liability matcher, I conclude reluctantly that one cannot have profitability with a perfect match, and thus it is necessary to engage in a slight mismatch in order to cover the money market account.

Within the sorts of issues which have a slight mismatch, I would mention first the renegotiable rate mortgages. Under

(continued on page 35)

How Some Savings Banks Invest MMDA Funds

When SBJ talked to a half dozen savings bankers recently about the money market deposit account, all were in agreement that the new account's potentially short-term nature is forcing increased emphasis on asset and liquidity management, and all had set a strategy for investing these funds.

But that is where the consensus ended because each was matching investments with their MMDA deposits in a different way. Here's what they told **SBJ** about their MMDA investment policies:

Hay Walker, executive vice president, the Dollar Savings Bank, Pittsburgh, Pa. . . . with $260 million in MMDAs.

"For us, the basic issues in investing MMDA money is the spread we can get and the need to build rate variability into our asset portfolio.

"Frankly, if we can't get a spread on assets bought with MMDA money then the concept of a no-ceiling account is irrelevant, even though it does give us control over our money flows. In addition, we're working toward acquiring more assets with rates that are adjustable.

"At present, though, we're investing our MMDA funds in short-term paper—CDs, bankers acceptances and some Eurodollars. Admittedly, we may now have more short-term instruments than we'll want to have in the future, relative to our goal of building up our variable rate asset portfolio. In other words, as we add more variable rate loans, both secured and unsecured, we'll reduce our short-term holdings.

"We're not now going into federal funds because we can get a better yield by warehousing our mortgages held in portfolio; we look for 'x' above the London Interbank Overnight Rate. And we're also not making apartment house mortgage loans, because these deals don't 'like' a variable rate.

"Some of our MMDA money is going into commercial mortgages—office and industrial buildings, shopping centers, and so on—with three-year terms and balloons. Rates on these loans are 0.5% to 1.5% over prime. And we'll go out 10 years on these mortgages if we can index the rate annually to something over the CD or U.S. Treasury note rates.

"We also write three- to five-year residential loans using MMDA funds. But these are not renegotiable rate mortgages; they're just due and payable at the end of the term, although we will offer to roll them over at the then-going rate. Right now our minimum rate is 13%.

"Our commercial loan department is about two years old and has some $40 million of footings, and we're putting some of our MMDA funds into these types of assets. In this market we're going after the smaller and middle-size corporation. These loans are at 'x' over prime and usually are secured partially or totally by real estate.

"Though we're not now in the futures market, we have used it when we thought that rates were going to move up. But we believe the economy is too slow for that to happen in any significant way—and remember, the Pittsburgh area was one of the first to be hit by the recession and probably will be one of the last areas to get out from under it.

"Partially as a result of this, the Dollar is 'exporting' money to the South and West. In those areas, we're involved in participations in mortgage-oriented investments and in lines of credit for national companies. Our out-of-state deals might be 30-day participations at something over the federal funds rate, or three-year participations with the rate tied to the three-year bond market rate."

John M. Tsimbinos, president and CEO of the Roosevelt Savings Bank, New York City . . . with $160 million in MMDAs.

"When we first offered the MMDA we separated this money and invested it in matching maturities. But when large amounts of deposits came into these accounts, we found it was impractical to handle the funds apart from our other investment money. So, now we include MMDA funds in with the bank's general funds used to finance the needs of the bank.

"However, we recognize that the inclusion of these day-to-day deposits in our general funds increased our risk exposure, so we have used the MMDAs to beef up our primary liquidity to 5.5%–6% of deposits from 2.5%–3%, and our secondary liquidity to 14%–15% from 9%. For our primary liquidity, we invest in federal funds, one-year Treasurys, agency paper and other high-quality instruments maturing within one-year. Our secondary liquidity consists of high quality securities maturing within five years, principally governments, agencies and corporates.

"We're putting some of our MMDA funds into construction and consumer loans and we also write as many student loans as we can.

"While mortgages comprise the main outlet for our MMDA money, we are staying away from fixed-rate, long-term mortgages and, instead, are offering 25- and 30-year renegotiable rate mortgage loans with adjustment periods of one and three years. Presently the rates on the ARMs are 11.25% for those renewable in one year and 11.75% for the three year loans, plus points.

"While we are seeing consumer re-today's circumstances, the garden variety RRM, with perhaps a 1% per year tolerable increase in rate, is available to yield 12.5% to 13.5% plus some points.

If there is not adequate volume of RRMs, a second choice might be a variety of bonds in the two- to three-year area. It is necessary to be a little "fancy" in that sector in order to get an adequate yield, and we are looking, in particular, at extendible bonds with puts, cushion bonds (which have substantial defensive characteristics) and, in some cases, Euro bonds of U.S. corporations. These issues typically yield in the vicinity of 12%.

Some other short-term loans are also available. We have found a number of banks acquiring multifamily mortgage loans, loans on mobile homes and condominium units, and in some cases, better-grade second mortgages. The mortgage market is still imperfect, and some of these issues can be acquired at relatively good yields. In a few cases, there are also some points.

RRMs Stand Out

Among all of these issues, the renegotiable rate mortgages appear to be the most attractive not only because of yield, but also because of the availability of points on the origination. These issues do, admittedly, represent somewhat of a mismatch. I would also consider philosophically that renegotiable rate mortgages with a limitation on the interest rate adjustment feature have the effective life or interest-rate sensitivity of a two- to three-year obligation. It is, accordingly, necessary to mitigate the degree of the mismatch.

One popular vehicle for mitigating the mismatch is financial futures. While this is attractive in theory, some practical deficiencies exist in view of the convergence problem, which is due to the positive yield curve (see table). Time will tell whether the futures market has substantial merit for thrift institutions, but at this juncture it appears that the game is rigged somewhat against the thrift trying to mitigate the asset/liability match.

Another and more interesting route of mitigating the mismatch is to employ the Federal Home Loan Bank by borrowing long-term fixed-rate advances. Specifically, I am thinking of a "barbelled" liability strategy whereby short-term, highly interest-rate-sensitive money market accounts are combined with long-term, fixed-rate advances in order to invest in either two- to three-year bonds or, preferably, renegotiable rate mortgages (see table).

This strategy involves some improvement in asset/liability matching and a reasonably good spread. Our modeling suggests that this type of strategy works relatively well except under very high and very low interest-rate circumstances.

BARBELLED LIABILITY STRUCTURE

(Based on late March rates)

Assume (for theoretical purposes) that each dollar of a money market account at a cost of 8.5% is combined with a long-term Federal Home Loan ten-year fixed-rate advance at a cost of 11.5%. The average cost of money is 10.0% and the average maturity of the liability is five years. Also assume that the proceeds are invested in assets at the crest of the yield curve, such as two–three year cushion bonds at 11.0% (those issues were trading at around 12% earlier in the year when the bond market was trading at lower yields) or renegotiable-rate mortgages at 12% plus points. The following chart examines the spread between a sample 12% renegotiable-rate mortgage (with a 1% maximum annual increase but no floor) versus the cost of money.

Interest Rate Assumptions	Liability Cost			Asset Yield	
Over One Year Period	Money Mkt. Act.	Federal Home Loan Advance	Average Cost of Money	Renegotiable Rate Mortgage	Interest Margin
Today + 3.00%	11.50%	11.50%	11.50%	13.00%	1.50%
Today + 2.00	10.50	11.50	11.00	13.00	2.00
Today + 1.00	9.50	11.50	10.50	13.00	2.50
Today	8.50	11.50	10.00	12.00	2.00
Today − 1.00	7.50	11.50	9.50	11.00	1.50
Today − 2.00	6.50	11.50	9.00	10.00	1.00
Today − 3.00	5.50	11.50	8.50	9.00	0.50

The illustration reveals that the combination of a barbelled liability structure and a renegotiable-rate mortgage (even a mortgage designed with rather restrictive terms) produces an acceptable spread except under substantial increases or decreases in interest rates. While it would be desirable to develop assets that are even more interest-rate sensitive, banks may be forced to compromise between the best design of the mortgage and the need to develop adequate loan volume. It is interesting to note that the greatest vulnerability for the above transaction is in the event of a decline in interest rates. For most savings institutions with a pronounced asset/liability mismatch, the remainder of the bank will be faring quite well under those lower interest rate conditions. E.H.L.

Under very high interest rates, I confess that there is nothing the typical thrift institution can do to protect itself, except perhaps rely upon the Garn-St Germain safety net. In the event of very low interest rates, a bank may be unhappy that is has incurred a long-term fixed-rate advance from the Federal Home Loan Bank (particularly in view of the rather sticky prepayment penalties), but the rest of the bank will be doing very well.

In effect, this strategy calls for a bank taking on some very long-term liabilities at the same time it is adding money market accounts, and investing at the crest of the yield curve to get both a spread and a better asset/liability match.

In conclusion, I believe that the new deposit is going to be not only a major opportunity, but a major risk for thrift institutions. Asset/liability matching is very desirable, but under current circumstances, it is impossible because one cannot have both the spread and the match at the same time. Therefore, some compromise is necessary.

My suggested compromise is to take some of the funds and go to the crest of the yield curve in the two- to three-year area or in reasonably flexible mortgages. It is possible to obtain a spread on such instruments. The intent would be to minimize the mismatch and try to further mitigate it either through financial futures (if the convergence problem is not too onerous) or through the Federal Home Loan Bank.

I recognize that this is a compromise, a short-term solution to a serious long-term problem, but we are engaged, I confess, in a patchwork solution while we sort our way through the deregulation transition. It will not be an easy path to both match and obtain adequate profitability. **(END)**

national mortgage markets

Advises liquidity strategy. In a speech addressing various thrift industry changes, NAMSB President Saul B. Klaman recently warned thrifts that they should only originate long-term, fixed-rate mortgages in volume if they plan to resell them to others "more able to assume a higher degree of interest-rate risk."

While he has emphasized that strategy for some time, Klaman raised the point again before the annual stockholders' meeting of the FHLB of Cincinnati because of concerns that thrift institution managers "are showing dangerously short memories" by again making long-term, fixed-rate mortgages for their institutions' portfolios.

"A policy of making and holding such loans in volume amounts to playing Russian roulette with interest rates and the future of the institution," he declared.

With an increasing share of deposits in market-linked or ceiling-free accounts, he said, thrifts must move rapidly to restructure portfolios in the direction of shorter-term and more interest-sensitive loans, and to originate long-term, fixed-rate mortgages primarily for resale into the secondary mortgage market.

Limits types of ARM purchases. In an effort to "standardize and simplify" adjustable rate mortgages, the Federal National Mortgage Association last month said it will only purchase three types of ARMs—those with one-, three- and five-year adjustment periods—at its daily auctions.

While the three new plans became effective May 9, FNMA has given lenders until August 8 to sell the agency any type of adjustable rate mortgage at its daily auctions. The 90-day transition period is designed to help lenders sell "mortgages in the pipeline," said a spokesman. Afterward, adjustable mortgages other than the three specific plans may be sold to FNMA only on a negotiated basis.

FNMA has indexed rate adjustments on the three new ARMs to one-, three- and five-year U.S. Treasury securities rates. However, borrowers may limit the amount of annual increases in total monthly payments to 7.5%. If the capped payment does not cover the full rise in interest, the outstanding principal balance will increase to cover the amount of interest not paid; if the capped payment covers the interest but not the full principal payment, the mortgage amortization will slow down.

Each of the plans may be combined with an optional graduated payment feature, and the standard three-year and five-year, and all of the graduated payment plans may be combined with a temporary buy-down feature.

The agency had been exploring standardization for some time in order to reduce consumer confusion. Since it began buying ARMs in August 1981, FNMA has bought more than 120 varieties in addition to the eight standard ARM plans it originally announced. Purchases have totaled $4.5 billion.

FNMA Chairman David O. Maxwell said the agency had accepted the various ARMs "to allow the market—lenders and consumers—to determine which plans it preferred." Subsequently, FNMA decided on the three new types after plans with five-year, three- and one-year adjustments proved the most popular, in that order, with consumers.

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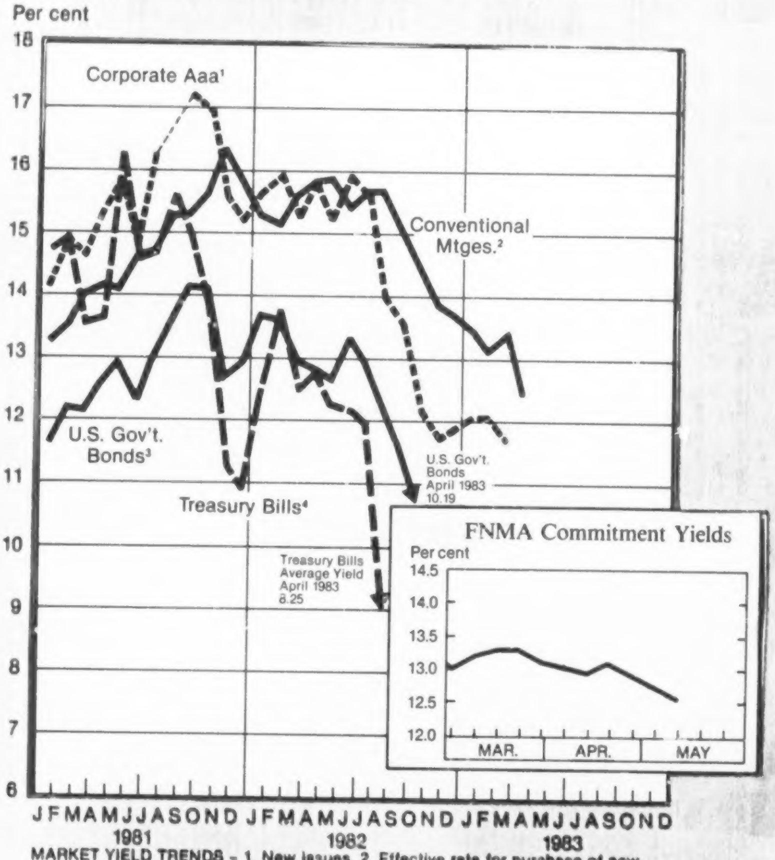
SBJ Money and Capital Market Yield Trends



MARKET YIELD TRENDS – 1. New issues. 2. Effective rate for purchase of new single-family homes. 3. Maturing or callable in 10 years or more. 4. Three months, new issue rate.

FNMA COMMITMENT YIELDS—Data are average yields on mortgage commitment bids accepted by the Federal National Mortgage Association. Data are for standard FHA/VA fixed-rate loans and provide for mandatory delivery. Yields are gross of 3/8% servicing fee and assume 30-year fixed-rate mortgages.

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savings bank statistics

Decline in reserve accounts halt ■ Deposit flows show usual seasonal weakness

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1979	−6,962	−4.93	2,659	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
1982	−10,438	−6.82	4,431	2.90
Monthly				
1982				
Nov.	−1,445	−.96	−596	−.40
Dec. r	1,451	.97	3,459	2.32
1983				
Jan. r	1,160	.76	2,021	1.32
Feb. r	1,207	.78	2,039	1.32
Mar.	245	.16	1,996	1.27
Apr. (Est.)	−700	−.44	150	.09

State	Change by States							
	March 1983				March 1982			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	55	.34	172	1.07	−13	−.09	112	.78
Me.	16	.57	34	1.22	−10	−.39	11	.41
Md.	8	.42	14	.76	4	.25	21	1.19
Mass.	135	.59	298	1.30	−32	−.15	143	.66
N.H.	13	.49	41	1.51	−3	−.10	19	.73
N.J.	−45	−.47	24	.26	−68	−.73	29	.31
N.Y.	45	.06	1,163	1.47	−533	−.68	760	.96
−City	−2	*	794	1.49	−359	−.67	536	1.01
−Upstate	47	.18	369	1.43	−174	−.68	224	.88
Penn.	−1	*	116	.88	−192	−1.45	−52	−.39
R.I.	11	.57	34	1.74	−3	−.19	21	1.15
Vt.	6	.74	14	1.80	−5	−.54	4	.40
Wash.	2	.04	57	1.52	−7	−.19	59	1.53
TOTAL	245	.16	1,996	1.27	−868	−.57	1,124	.74

Note: Regular deposits excludes special purpose accounts such as checking, school and club. Total includes states not shown separately. Est.—estimated. *less than .005%. r.—revised.

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings[2]	Time			
											Market-linked[3]	Other		
Year-end														
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
1981	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
Month-end														
1982														
May	96,334	13,990	9,968	2,259	20,079	3,417	28,905	174,952	153,354	47,895	84,898	18,460	12,246	9,352
June	96,364	14,077	10,217	2,240	19,153	3,382	29,792	175,225	154,392	47,977	85,718	18,573	11,263	9,570
July	96,282	14,103	10,058	2,236	19,137	3,411	30,457	175,683	154,314	47,580	86,289	18,101	11,926	9,443
Aug.	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
Sept.	94,382	13,740	9,404	2,191	18,839	3,266	31,667	173,487	153,089	47,496	85,561	17,738	11,166	9,232
Oct.	94,261	13,894	9,219	2,505	18,488	3,217	31,324	172,908	152,210	48,520	83,775	17,633	11,556	9,141
Nov.	94,017	13,950	9,456	2,496	18,598	3,205	30,566	172,287	151,304	49,208	81,997	17,962	11,893	9,089
Dec. r	94,091	14,055	9,743	2,470	18,951	3,155	31,731	174,197	155,196	56,408	79,703	16,666	9,766	9,235
1983														
Jan. r	93,944	14,064	10,248	2,446	19,193	3,173	31,658	174,726	157,113	64,692	74,245	15,939	8,418	9,196
Feb. r	93,607	14,261	11,081	2,440	19,430	3,214	32,346	176,378	159,162	69,538	71,221	16,156	8,019	9,197
Mar.	93,822	14,579	12,187	2,403	20,015	3,234	32,574	178.814	161,489	72,816	70,120	16,152	7,983	9,342
Apr. (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	161,789	n.a.	68,172	n.a.	n.a.	n.a.
% of Total Assets Mar. 31, 1983	52.5	8.2	6.8	1.3	11.2	1.8	18.2	100.0	90.3	40.7	39.2	9.0	4.5	5.2
Change during month	39	318	1,105	−36	574	20	208	2,227	2,147	3,226	−1,206	−25	−65	145

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items. n.a.—not available. Est.—estimated. r.—revised.

[1] — Total deposit figures include checking, school, club and certain other accounts not shown separately.

[2] — Savings figures include MMDAs.

[3] — Market-linked figures include 91-day, 6-mo. MMCs, 30-mo. SSCs, and All Savers Certificates.

Source: NAMSB.

July 1983 Official pu [illegible] anks

In New Jersey—

Return to Profitability, State Group Sets New Goals

STEP-by-STEP THROUGH

STOCK CONVERSION PROCESS

Consumer Loan Strategy For the 1980s

Also: *From Washington* Views Withholding Repeal ▪ More New England States Act on Interstate Banking ▪ Stock Option, Parity Bills Pass ▪ Major Curriculum Changes for Industry's National School ▪ MBA Cites Return of Fixed-Rate Loan

Auditing Uncovers Problem Commercial Loans

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"More Than 60 Years of Continuous Publication"

Vol. 64 No. 5 **JULY, 1983**

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SBAM Elects New Officers

Robert McCarter, president, treasurer and CEO of the New Bedford (Mass.) Institution for Savings, has been elected 1983-84 chairman of the Savings Banks Association of Massachusetts.

Also elected to SBAM posts were Bernard K. Garceau, president and CEO of Brockton (Mass.) Savings Bank, as first vice chairman; and Janet M. Pavliska, president and CEO of the Arlington (Mass.) Five Cents Savings Bank, as second vice chairman. The only woman savings bank president in Massachusetts, Pavliska became the first woman elected to a high-ranking SBAM post.

The new officers were elected at SBAM's annual meeting held June 17 in Springfield, Mass. Their one-year terms begin July 1.

At the annual meeting, savings bankers heard reports from SBAM president Robert K. Sheridan, incoming chairman McCarter and outgoing chairman Keith G. Willoughby, president of Boston's Mutual Bank For Savings.

Fixed-Rate Loan—

tant feature of any joint venture or equity participation plan. The panelist, Robert S. Greenbaum, a partner in the law firm of Greenbaum, Greenbaum, Rowe and Smith of Woodbridge, N.J., offered these tips for joint venturers:

- Make a careful selection of partners based on their track record of performance and honesty, and build control into the joint venture agreement in order to retain the opportunity for ongoing supervision and an active role in decision-making.
- Set up a proper reporting system so, as a partner, you can be aware of profits and the status of the job.
- Delineate the right of the builder-partner to engage in other deals which might constitute competition and, therefore, be disruptive to your interest.
- And, most importantly, provide some type of escape hatch. It can even be a simple one, whereby if one partner is disenchanted, the other partner can buy out his share. The clause should include the right to reverse the offer if the buy-out price is too low.

Because of the escape hatch, Greenbaum said, "Anticipate that one day you may be the sole owner. Don't get involved unless you're prepared for that."

national mortgage markets

Undercut market on ARMs. While many lenders are back making fixed-rate, long-term mortgages for portfolio or sale in the secondary market, a number of savings banks in various parts of the nation recently began aggressively marketing adjustable rate mortgages with interest rates well below market.

In general, these savings banks offered ARMs at rates not only about 2% below the average ARM rate, but about 3%–4% below the average rate on fixed-rate loans. Demand was reported to be overwhelming.

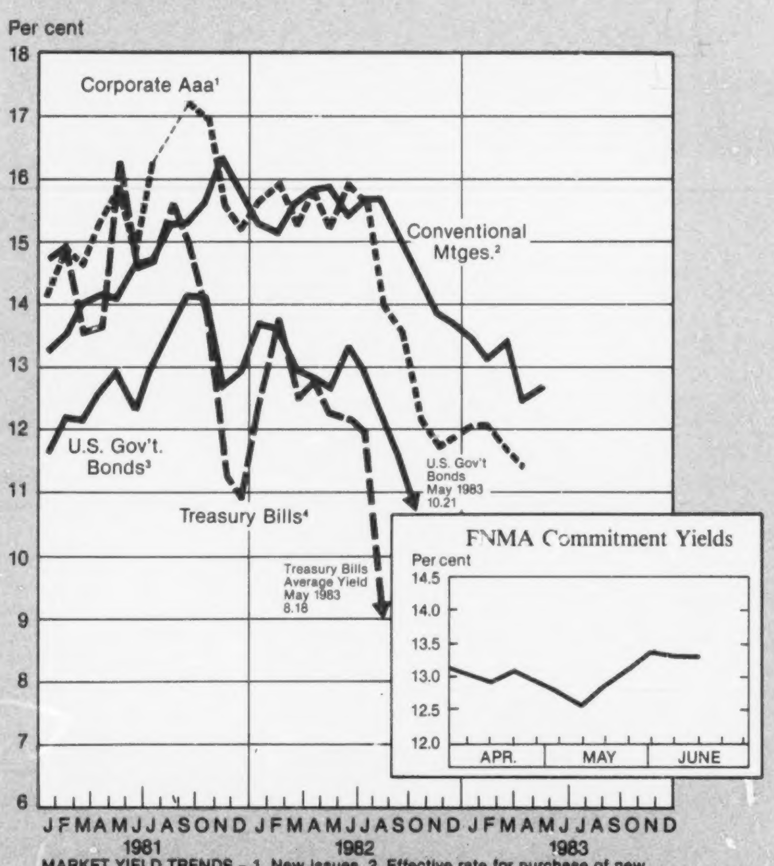
One of the lowest of these ARM rates was announced by The Long Island Savings Bank, fsb, New York City, which is offering a one-year adjustable rate mortgage, at an 8.75% rate and 3.5% origination fee. Available since May 17, the low ARM rate compared in mid-June with 13%, plus three points for the bank's fixed-rate mortgage.

In Connecticut, The Mortgage Center, Inc., a subsidiary of The Banking Center, Waterbury, on June 1 announced a one-year variable rate mortgage at what bank officials marketed as "an almost forgotten" mortgage rate of 9⅞% plus two points. In mid-June, the Center's fixed-rate mortgage hovered around 13%.

With a somewhat higher rate, The Provident Institution for Savings, Boston, in May introduced a one-year ARM

(continued on page 38)

SBJ Money and Capital Market Yield Trends



MARKET YIELD TRENDS – 1. New issues. 2. Effective rate for purchase of new single-family homes. 3. Maturing or callable in 10 years or more. 4. Three months, new issue rate.

FNMA COMMITMENT YIELDS—Data are average yields on mortgage commitment bids accepted by the Federal National Mortgage Association. Data are for standard FHA/VA fixed-rate loans and provide for mandatory delivery. Yields are gross of 3/8% servicing fee and assume 30-year fixed-rate mortgages.

savings bank statistics

resumed in May ■ Surplus accounts up a bit for second consecutive month

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1979	−6,962	−4.93	2,659	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
1982	−10,438	−6.82	4,431	2.90
Monthly				
1982				
Dec.	1,451	.97	3,459	2.32
1983				
Jan.	1,160	.76	2,021	1.32
Feb.	1,207	.78	2,039	1.32
Mar.	245	.16	1,996	1.27
Apr.	−778	−.49	58	.04
May (Est.)	200	.13	1,050	.66

State	Change by States							
	April 1983				April 1982			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	−54	−.33	63	.39	−106	−.73	16	.11
Me.	4	.15	23	.80	−22	−.86	−2	−.07
Md.	−1	−.07	20	1.07	−6	−.35	6	.33
Mass.	−22	−.09	153	.66	−230	−1.06	−58	−.27
N.H.	−2	−.08	16	.56	−17	−.65	3	.12
N.J.	−78	−.81	−11	−.11	−118	−1.28	−37	−.40
N.Y.	−536	−.67	−230	−.29	−993	−1.27	−718	−.92
−City	−399	−.74	−214	−.40	−714	−1.39	−571	−1.11
−Upstate	−136	−.52	−16	−.06	−279	−1.03	−147	−.54
Penn.	−126	−.94	−43	−.32	−205	−1.55	−109	−.83
R.I.	4	.18	14	.72	−15	−.85	−4	−.25
Vt.	−5	−.66	−1	−.10	−3	−.30	2	.21
Wash.	16	.42	30	.77	−69	−2.06	−62	−1.85
TOTAL	−778	−.49	58	.04	−1800	−1.18	−977	−.64

Note: Regular deposits excludes special purpose accounts such as checking, school and club. Total includes states not shown separately. Est.—estimated.

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
											Time			
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings[2]	Market-linked[3]	Other		
Year-end														
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
1981	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
Month-end														
1982														
June	96,364	14,077	10,217	2,240	19,153	3,382	29,792	175,225	154,392	47,977	85,718	18,573	11,263	9,570
July	96,282	14,103	10,058	2,236	19,137	3,411	30,457	175,683	154,314	47,580	86,289	18,101	11,926	9,443
Aug.	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
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Oct.	94,261	13,894	9,219	2,505	18,488	3,217	31,324	172,908	152,210	48,520	83,775	17,633	11,556	9,141
Nov.	94,017	13,950	9,456	2,496	18,598	3,205	30,566	172,287	151,304	49,208	81,997	17,962	11,893	9,089
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1983														
Jan.	93,944	14,064	10,248	2,446	19,193	3,173	31,658	174,726	157,113	64,692	74,245	15,939	8,418	9,196
Feb.	93,607	14,261	11,081	2,440	19,430	3,214	32,346	176,378	159,162	69,538	71,221	16,156	8,019	9,197
Mar.	93,822	14,579	12,187	2,403	20,015	3,234	32,574	178,814	161,489	72,816	70,120	16,152	7,983	9,342
Apr.	93,311	14,794	12,364	2,311	20,315	3,233	32,499	178,826	161,262	74,167	68,666	15,927	8,213	9,352
May (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	162,212	n.a.	67,019	n.a.	n.a.	n.a.
% of Total Assets Apr. 30, 1983	52.2	8.3	6.9	1.3	11.4	1.8	18.2	100.0	90.2	41.5	38.4	8.9	4.6	5.2
Change during month	−319	217	187	−75	305	−1	173	488	186	1,394	−1,427	91	260	42

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items. n.a.—not available. Est.—estimated.

[1] — Total deposit figures include checking, school, club and certain other accounts not shown separately.

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[3] — Market-linked figures include 91-day, 6-mo. MMCs, 30-mo. SSCs, and All Savers Certificates.

Source: NAMSB.

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Savings Bank Journal

August 1983

Official publication of the National Association of Mutual Savings Banks

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Charter Conversions Surge

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national mortgage markets

Mutual fund for mortgages. The National Association of Realtors and the National Association of Home Builders before the end of this summer will begin to market to the public a first-of-a-kind no-load mutual fund backed by mortgage-related securities.

By offering the public a chance to invest indirectly in home loans, the two groups hope to make available more funds for mortgage lending. As proposed, 80% or more of the fund's cash will be invested in the mortgage-related securities and the balance in liquid assets. The fund will buy pools of the securities from primary mortgage lenders as well as from the secondary market.

Jack Carlson, the NAR's executive vice president and chief economist, and president of the new fund, expects the fund's first-year investments to total $50 million to $100 million.

The fund, called the Home Investors Fund, was offered in early May to the trade group's 707,000 members. By the end of the summer, it will be offered to the public through brokers, media advertisements and direct mail. The minimum initial investment is $2,000—except for a $500 minimum by an IRA or Keogh fund—and minimum additional investments will be $100.

The Vanguard Group, Inc., and its affiliate Vanguard Marketing Corp., is the fund's administrator and distributor. State Street Bank and Trust, Boston, is the custodian bank.

Starts unique on-the-road program. A new mortgage banking subsidiary of the $811.9 million-assets The Banking Center, Waterbury, Conn., recently began operations with an unusual program of actively soliciting mortgage applicants even during nonbanking hours.

The subsidiary, called The Mortgage Center, hopes to reach a high level of mortgage originations by sending its five mortgage officers to meet potential home buyers and realtors on their turf—whether it is at coffee shops, homes or the realtors' offices—or at bank branches.

Each mortgage officer reviews the home buyer's qualifications and gives an on-the-spot indication whether the loan is likely to be approved. The center offers a 15-day loan-decision period.

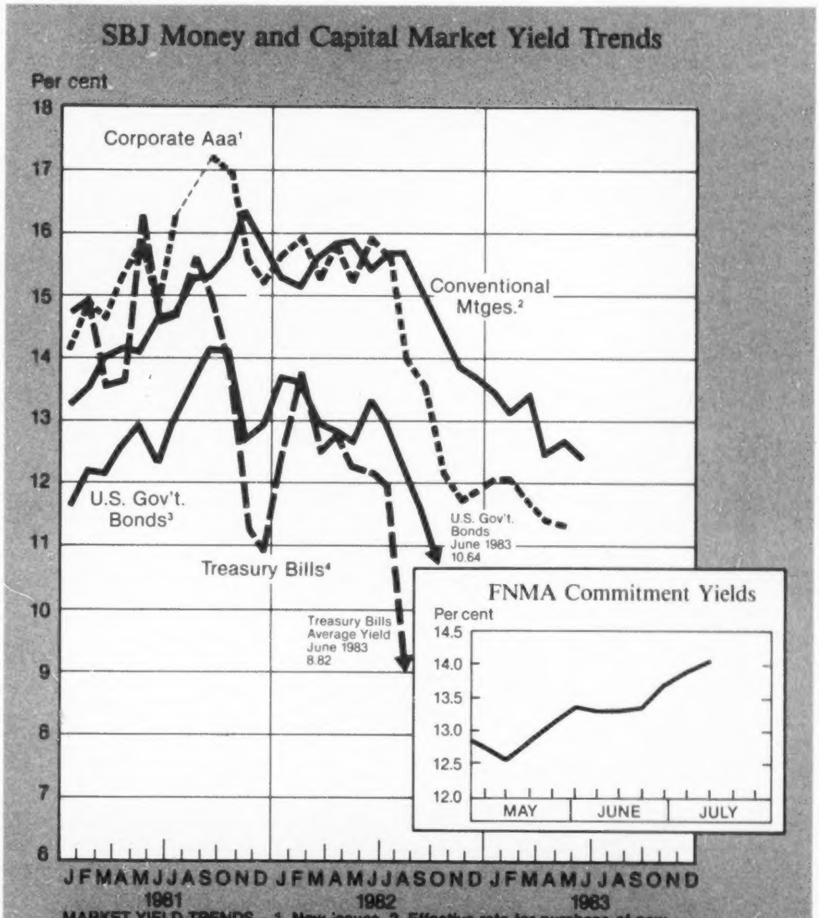
The Mortgage Center plans to sell about 90% of the mortgage loans it closes to FNMA, mortgage companies and banks, and plans to enter into an agreement soon under which it will sell mortgages to a major insurance company. The center will retain the servicing.

The mortgage subsidiary carries out its on-the-road concept through a formal paging system. Under the paging program, a realtor calls one of the Mortgage Center's regional lending managers on a toll-free number. If he's not in, the realtor leaves his number and an electronic pager alerts the loan officer that a call was made. With a return phone call, the manager quotes rates and other information, and he sets up an appointment—sometimes the same day—to meet with the realtor and potential home buyer, at which time the mortgage application is filled out and submitted.

In the first 30 days since The Mortgage Center opened April 1, applications totaling $16 million were processed, according to Robert W. Stallings, the center's president. He said 80% of the applicants have opted for fixed-rate loans rather than the center's six-month variable rate mortgages.

The Mortgage Center has received an average 10–15 phone calls a day under its paging program, and is currently working with some 500 realtors statewide.

The subsidiary, which inherited the savings bank's $420 million mortgage portfolio, is based in Waterbury and has a branch office in Darien. The center plans to expand operations into at least one other state by the fall.



MARKET YIELD TRENDS – 1. New issues. 2. Effective rate for purchase of new single-family homes. 3. Maturing or callable in 10 years or more. 4. Three months, new issue rate.

FNMA COMMITMENT YIELDS—Data are average yields on mortgage commitment bids accepted by the Federal National Mortgage Association. Data are for standard FHA/VA fixed-rate loans and provide for mandatory delivery. Yields are gross of 3/8% servicing fee and assume 30-year fixed-rate mortgages.

savings bank statistics

Overall deposit trends remain favorable ■ But money market deposit account growth levels off

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1979	−6,962	−4.93	2,659	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
1982	−10,438	−6.82	4,431	2.90
Monthly				
1983				
Jan.	1,160	.76	2,021	1.32
Feb.	1,207	.78	2,039	1.32
Mar.	245	.16	1,996	1.27
Apr.	−778	−.49	58	.04
May	163	.10	1,080	.68
June (Est.)	50	.03	2,150	1.35

State	Change by States							
	May 1983				May 1982			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	54	.33	171	1.05	−30	−.20	91	.62
Me.	15	.52	35	1.20	−6	−.24	14	.53
Md.	1	.05	13	.68	−3	−.16	10	.55
Mass.	55	.23	229	.98	−107	−.49	58	.27
N.H.	11	.39	31	1.10	−12	−.45	9	.34
N.J.	7	.08	85	.89	−37	−.40	40	.44
N.Y.	84	.10	455	.57	−300	−.39	50	.06
−City	62	.12	280	.52	−159	−.31	17	.03
−Upstate	21	.08	175	.67	−140	−.52	32	.12
Penn.	−76	−.57	8	.06	−144	−1.11	−48	−.37
R.I.	15	.71	25	1.23	−1	−.04	10	.53
Vt.	3	.34	6	.76	3	.35	7	.84
Wash.	14	.37	40	1.04	−21	−.63	−14	−.41
TOTAL	163	.10	1,080	.68	−654	−.43	232	.15

Note: Regular deposits excludes special purpose accounts such as checking, school and club. Total includes states not shown separately.
Est.—estimated.

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings[2]	Time			
											Market-linked[3]	Other		
Year-end														
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
1981	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
Month-end														
1982														
July	96,282	14,103	10,058	2,236	19,137	3,411	30,457	175,683	154,314	47,580	86,289	18,101	11,926	9,443
Aug.	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
Sept.	94,382	13,740	9,404	2,191	18,839	3,266	31,667	173,487	153,089	47,496	85,561	17,738	11,166	9,232
Oct.	94,261	13,894	9,219	2,505	18,488	3,217	31,324	172,908	152,210	48,520	83,775	17,633	11,556	9,141
Nov.	94,017	13,950	9,456	2,496	18,598	3,205	30,566	172,287	151,304	49,208	81,997	17,962	11,893	9,089
Dec.	94,091	14,055	9,743	2,470	18,951	3,155	31,731	174,197	155,196	56,408	79,703	16,666	9,766	9,235
1983														
Jan.	93,944	14,064	10,248	2,446	19,193	3,173	31,658	174,726	157,113	64,692	74,245	15,939	8,418	9,196
Feb.	93,607	14,261	11,081	2,440	19,430	3,214	32,346	176,378	159,162	69,538	71,221	16,156	8,019	9,197
Mar.	93,822	14,579	12,187	2,403	20,015	3,234	32,574	178,814	161,489	72,816	70,120	16,152	7,983	9,342
Apr.	93,311	14,794	12,364	2,311	20,315	3,233	32,499	178,826	161,262	74,167	68,666	15,927	8,213	9,352
May	93,587	14,837	13,110	2,260	21,044	3,260	31,972	180,071	162,287	76,334	n.a.	n.a.	8,407	9,377
June (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	164,562	n.a.	n.a.	n.a.	n.a.	n.a.
% of Total Assets May 31, 1983	52.0	8.2	7.3	1.3	11.7	1.8	17.8	100.0	90.1	42.4	n.a.	n.a.	4.7	5.2
Change during month	276	43	747	−51	729	28	−527	1,245	1,025	2,167	n.a.	n.a.	195	25

n.a.—not available. Est.—estimated.

[1]— Total deposit figures include checking, school, club and certain other accounts not shown separately.

[2]— Savings figures include MMDAs.

[3]— Market-linked figures include 91-day, 6-mo. MMCs, 30-mo. SSCs, and All Savers Certificates.

Source: NAMSB.

Savings nal

September 1983

Official publication of the Nationa Associ vings Banks

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Converting Mortgage Portfolios WHOLESALE

'Help' For Consumer Lending Newcomers

Strategy To Build a Commercial Loan Portfolio

One Bank's Move Into MORTGAGE BANKING

Industry's 100 LARGEST

Also: PSFS Stock Offering Proceeds After Depositors Lose Court Challenge ■ FDIC Broadens Market for Bank Stock ■ National Mortgage Conference to Reassess Loan Strategies ■ Out-of-State Bank Buys Oregon Mutual ■ National Council Announces New Magazine

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Savings Bank Journal

More Than 60 Years of Continuous Publication

Vol. 64 No. 7 — NAMSB — SEPTEMBER, 1983

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100 Largest Savings Banks

Rank on 6-30-83		Deposits in thousands of dollars	Rank on 12-31-82
1.	The Philadelphia (Pa.) Saving Fund Society	$9,254,175	1.
2.	Goldome Bank For Savings, Buffalo, N.Y.	7,849,113	2.
3.	The Dime Savings Bank of New York, fsb, New York City	5,962,209	3.
4.	Metropolitan Savings Bank, New York City	5,709,978	4.
5.	The Bowery Savings Bank, New York City	4,738,197	5.
6.	Dollar-Dry Dock Savings Bank of New York, New York City	4,616,419	6.
7.	The Howard Savings Bank, Newark, N.J.	2,996,889	7.
8.	American Savings Bank, fsb, New York City	2,971,385	8.
9.	Emigrant Savings Bank, New York City	2,847,856	9.
10.	Anchor Savings Bank, fsb, Northport, N.Y.	2,816,522	10.
11.	People's Savings Bank-Bridgeport, Conn.	2,615,402	12.
12.	The Manhattan Savings Bank, New York City	2,438,660	11.
13.	Washington Mutual Savings Bank, Seattle	2,344,241	13.
14.	The Rochester Community Savings Bank, N.Y.	2,257,573	—.
15.	The Williamsburgh Savings Bank, New York City	2,060,267	14.
16.	The Greater New York Savings Bank, New York City	1,790,710	18.
17.	Society for Savings, Hartford, Conn.	1,770,819	15.
18.	The Lincoln Savings Bank, fsb, New York City	1,752,827	17.
19.	Hudson City Savings Bank, Paramus, N.J.	1,738,971	16.
20.	The Seamen's Bank for Savings, New York City	1,737,816	22.
21.	East River Savings Bank, New York City	1,689,560	19.
22.	Albany (N.Y.) Savings Bank, fsb	1,624,625	20.
23.	Beneficial Mutual Savings Bank, Philadelphia, Pa.	1,561,627	21.
24.	The Green Point Savings Bank, New York City	1,516,758	24.
25.	Apple Bank for Savings, New York City	1,468,675	23.
26.	Dollar Savings Bank, Pittsburgh, Pa.	1,316,603	26.
27.	Germantown Savings Bank, Bala-Cynwyd, Pa.	1,281,517	25.
28.	The Long Island Savings Bank, fsb, New York City	1,188,726	29.
29.	The Savings Bank of Baltimore, Md.	1,122,323	31.
30.	Provident Savings Bank, Jersey City, N.J.	1,120,768	51.
31.	Jamaica Savings Bank, fsb, New York City	1,119,814	28.
32.	East New York Savings Bank, New York City	1,114,052	30.
33.	Mutual Bank For Savings, fsb, Boston, Mass.	1,100,975	33.
34.	Peoples Westchester Savings Bank, Hawthorne, N.Y.	1,093,920	32.
35.	The Boston (Mass.) Five Cents Savings Bank, fsb	1,039,288	34.
36.	Independence Savings Bank, New York City	1,014,073	35.
37.	Onondaga Savings Bank, Syracuse, N.Y.	1,001,368	37.
38.	Neworld Bank, Boston, Mass.	971,913	39.
39.	Syracuse (N.Y.) Savings Bank	966,095	38.
40.	Ridgewood Savings Bank, New York City	931,901	41.
41.	Hamburg Savings Bank, New York City	874,142	54.
42.	The New Haven (Conn.) Savings Bank	856,512	43.
43.	Connecticut Savings Bank, New Haven	838,057	40.
44.	The Provident Institution for Savings, Boston, Mass.	827,415	44.
45.	The Banking Center, Waterbury, Conn.	821,703	49.
46.	Wilmington (Del.) Savings Fund Society, fsb	814,154	42.
47.	Roosevelt Savings Bank, New York City	806,964	45.
48.	Citizens Savings Bank, Providence, R.I.	806,530	46.
49.	The Morris County Savings Bank, Morristown, N.J.	781,895	47.
50.	Provident Savings Bank of Baltimore, Md.	713,022	50.
51.	The Queens County Savings Bank, New York City	705,766	48.

Deposits at the nation's 100 largest savings banks increased by 6.5% in the first six months of 1983 to a total of $126.5 billion. This NAMSB research data covers only 'traditional' savings banks. Not included in the listing are former S&Ls that in recent months converted to a federal savings bank charter. Approximately 80 such conversions have been completed; some 15 of these new savings banks would have made this 100 largest listing.

Rank on 6-30-83		Deposits in thousands of dollars	Rank on 12-31-82
52.	Eastern Savings Bank, New York City	705,341	53.
53.	Home & City Savings Bank, Albany, N.Y.	694,177	52.
54.	The Roslyn (N.Y.) Savings Bank	689,177	55.
55.	Maine Savings Bank, Portland	664,971	57.
56.	Monroe Savings Bank, fsb, Rochester, N.Y.	652,687	58.
57.	Richmond Hill Savings Bank, New York City	647,211	56.
58.	The Binghamton (N.Y.) Savings Bank	632,004	59.
59.	Springfield (Mass.) Institution for Savings	615,147	61.
60.	Mechanics and Farmers Savings Bank, Bridgeport, Conn.	609,035	60.
61.	Union Warren Savings Bank, Boston, Mass.	581,339	66.
62.	American Savings Bank, New Britain, Conn.	565,324	65.
63.	The Savings Bank of Utica, N.Y.	563,629	62.
64.	South Boston Savings Bank, Boston, Mass.	558,228	71.
65.	Worcester (Mass.) County Institution for Savings	550,159	67.
66.	The Dime Savings Bank of Williamsburgh, New York City	549,073	64.
67.	Staten Island Savings Bank, New York City	545,876	63.
68.	New Brunswick (N.J.) Savings Bank	534,860	68.
69.	Harmonia Savings Bank, Elizabeth, N.J.	496,521	69.
70.	Orange Savings Bank, Livingston, N.J.	490,601	70.
71.	Eastern Savings Bank, Lynn, Mass.	483,522	72.
72.	North Side Savings Bank, New York City	462,719	73.
73.	Amoskeag Savings Bank, Manchester, N.H.	454,603	74.
74.	Mechanics Savings Bank, Hartford, Conn.	450,820	78.
75.	The Liberty Bank For Savings, Middletown, Conn.	440,266	77.
76.	The Poughkeepsie (N.Y.) Savings Bank, fsb	435,116	76.
77.	Lincoln Mutual Savings Bank, Spokane, Wash.	424,091	79.
78.	New Bedford (Mass.) Institution for Savings	423,121	82.
79.	The Home Savings Bank, White Plains, N.Y.	415,903	80.
80.	Burlington (Vt.) Savings Bank	404,006	83.
81.	The Perth Amboy (N.J.) Savings Institution	400,993	81.
82.	Riverhead (N.Y.) Savings Bank	397,878	85.
83.	New England Savings Bank, New London, Conn.	396,476	86.
84.	Woonsocket (R.I.) Institution for Savings	393,223	92.
85.	Peoples Savings Bank, Portland, Me.	390,660	—.
86.	Eastchester Savings Bank, Mount Vernon, N.Y.	389,577	84.
87.	The Permanent Savings Bank, Niagara Falls, N.Y.	383,373	88.
88.	The Troy (N.Y.) Savings Bank	379,904	87.
89.	Savings Bank of Puget Sound, Seattle, Wash.	375,548	99.
90.	BancOne of Connecticut, Bridgeport	371,440	90.
91.	Heritage Savings Bank, Waterville, Me.	366,580	89.
92.	Richmond County Savings Bank, New York City	366,323	94.
93.	Burritt Mutual Savings Bank, New Britain, Conn.	359,844	—.
94.	Peoples Savings Bank, Worcester, Mass.	359,077	91.
95.	Cambridge (Mass.) Savings Bank	358,948	100.
96.	State Bank for Savings, Hartford, Conn.	354,050	96.
97.	The Norwich (Conn.) Savings Society	347,090	97.
98.	National Savings Bank, Albany, N.Y.	346,318	95.
99.	Union Savings Bank, Patchogue, N.Y.	342,955	—.
100.	South Norwalk (Conn.) Savings Bank	342,772	98.
	Total deposits, 100 largest	$126,523,326	
	Total deposits, all savings banks	$163,990,127	

icers sell to FNMA, while 39.4% of S&Ls and 50.8% of mortgage servicers utilize FHLMC, 32.6% of S&Ls and 67.2% of mortgage servicers sell to private investors, and 8.4% of S&Ls and 9% of mortgage servicers tap other sources.

PSFS' mortgage company plans expansion. Central Mortgage Co., a subsidiary of The Philadelphia (Pa.) Saving Fund Society, recently reported that its projected mortgage origination and servicing volume for this year should move the company into the top 100 mortgage bankers in the nation.

The company has been on a marked growth course since PSFS purchased it in late 1982 from Industrial Valley Bank. Under PSFS' ownership, the mortgage company originated $45 million in residential mortgages in the first quarter of 1983, up from $2.5 million originated during the same period in 1982.

James A. Rogers, Central Mortgage's president, said the company will originate between $280 million and $300 million in mortgages this year. And he expects the company's mortgage servicing portfolio to increase this year from $925 million in mortgages for 160 investors to more than $1 billion.

Central Mortgage has operated in Pennsylvania, New Jersey and Delaware since 1964, and several weeks ago it opened an office in Florida. Within a year, however, Rogers expects to expand down the East Coast and into the South. He specifically mentioned opening offices in Virginia, Maryland and Texas.

Explaining the company's growth spurt, Rogers said, "In PSFS we have a parent that is more attuned to a mortgage banking operation than a commercial bank."

Buys real estate franchise. Consumers Savings Bank, Worcester, Mass., recently acquired Realty World New England, a 50-office real estate brokerage franchise operating in four states.

The $280 million-assets bank purchased the franchise in early June for $250,000. Its new wholly-owned subsidiary has offices in Connecticut, Maine, Massachusetts and New Hampshire.

The purchase marks the second such acquisition by Consumers—one year earlier, it bought Realty World Florida, a 66-office franchise.

While Consumers considers the Realty World acquisitions a natural extension of its mortgage business, the move also fits in with Consumer's diversification strategy, under which, Ronald W. Haselton, president and CEO, said, "The bank positions itself to grow in terms of profitable enterprises."

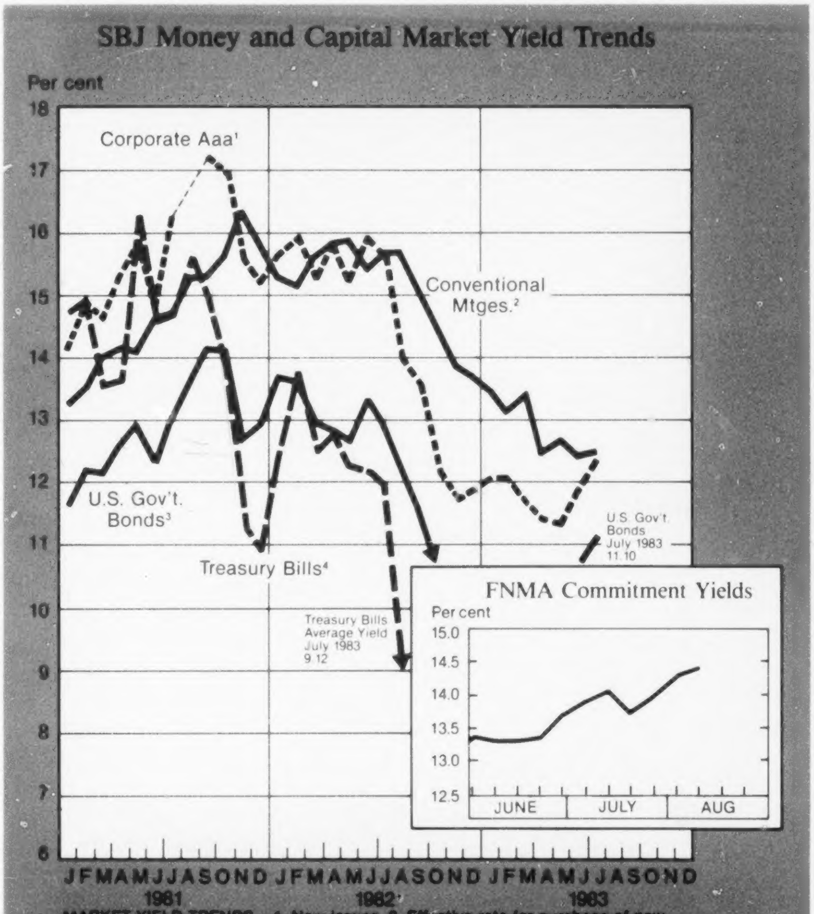
With the Realty World franchises, the bank expects the return of its investments within three to five years. "We're not in it for short-term gain, but to use the real estate business as a foundation for future growth as a financial services corporation," explained Fran Brissette, vice president and chief financial officer of Bay Investments, the bank's corporate management subsidiary.

While Consumers is believed the first Massachusetts savings bank to buy a real estate brokerage network, a similar path has been pursued by banks elsewhere. For example, Goldome Bank for Savings, Buffalo, N.Y., in 1981 bought Realty World Franchise Service Corp., in the northeast, and bought a 50% share in a Realty World in California.

Introduces convertible ARM. A new type of mortgage—a "convertible ARM"—has emerged under a special commitment program jointly announced by Freddie Mac and Ticor Investment Securities Company. The program is a $1.42 billion commitment by Freddie Mac to buy convertible ARMs as well as other loans under its standard secondary market programs.

The new type of mortgage is a three-year or five-year ARM which can be converted to a fixed-rate 25- or 27-year fully amortized loan at the first adjustment period. The fixed-rate loan will be based on the market rate for 30-year, fixed-rate loans at the time of conversion. Buydown options are available.

Ticor, which has handled the marketing end of this joint venture, has signed up 181 lenders in 38 states to originate mortgages under this program. On its end, Freddie Mac will purchase the loans from lenders.



SBJ Money and Capital Market Yield Trends

MARKET YIELD TRENDS – 1. New issues. 2. Effective rate for purchase of new single-family homes. 3. Maturing or callable in 10 years or more. 4. Three months, new issue rate.

FNMA COMMITMENT YIELDS—Data are average yields on mortgage commitment bids accepted by the Federal National Mortgage Association. Data are for standard FHA/VA fixed-rate loans and provide for mandatory delivery. Yields are gross of 3/8% servicing fee and assume 30-year fixed-rate mortgages.

savings bank statistics

Deposit flows are lackluster as MMDA growth levels off ■ Additions to surplus accounts stay small.

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1979	1	−6,962	−4.93	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
1982	−10,438	−6.82	4,431	2.90
Monthly				
1983				
Feb.	1,207	.78	2,039	1.32
Mar.	245	.16	1,996	1.27
Apr.	−778	−.49	58	0.4
May	163	.10	1,080	.68
June	56	.04	1,733	1.08
July (Est.)	−175	−.11	725	.45

State	Change by States							
	June 1983				June 1982			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	−13	−.08	107	.65	−78	−.53	67	.45
Me.	1	.03	20	.69	−10	−.38	10	.39
Md.	1	.05	13	.65	−12	−.67	4	.24
Mass.	−43	−.18	127	.54	−151	−.70	18	.08
N.H.	−5	−.17	15	.52	−12	−.45	17	.66
N.J.	−59	−.61	21	.21	−62	−.67	37	.40
N.Y.	−159	−.20	915	1.14	−584	−.75	698	.90
−City	−121	−.22	652	1.20	−436	−.86	473	.94
−Upstate	−37	−.14	264	1.00	−148	−.55	224	.83
Penn.	304	2.28	405	3.04	−213	−1.64	−71	−.55
R.I.	−6	−.30	15	.71	−21	−1.17	2	.10
Vt.	−6	−.75	2	.20	−12	−1.29	−6	−.63
Wash.	41	1.06	83	2.14	−33	−1.00	34	1.04
TOTAL	56	.04	1,733	1.08	−1,214	−.80	867	.57

Note: Regular deposits excludes special purpose accounts such as checking, school and club. Total includes states not shown separately.
Est.—estimated.

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings[2]	Time			
											Market-linked[3]	Other		
Year-end														
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
1981	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
Month-end														
1982														
July	96,282	14,103	10,058	2,236	19,137	3,411	30,457	175,683	154,314	47,580	86,289	18,101	11,926	9,443
Aug.	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
Sept.	94,382	13,740	9,404	2,191	18,839	3,266	31,667	173,487	153,089	47,496	85,561	17,738	11,166	9,232
Oct.	94,261	13,894	9,219	2,505	18,488	3,217	31,324	172,908	152,210	48,520	83,775	17,633	11,556	9,141
Nov.	94,017	13,950	9,456	2,496	18,598	3,205	30,566	172,287	151,304	49,208	81,997	17,962	11,893	9,089
Dec.	94,091	14,055	9,743	2,470	18,951	3,155	31,731	174,197	155,196	56,408	79,703	16,666	9,766	9,235
1983														
Jan.	93,944	14,064	10,248	2,446	19,193	3,173	31,658	174,726	157,113	64,692	74,245	15,939	8,418	9,196
Feb.	93,607	14,261	11,081	2,440	19,430	3,214	32,346	176,378	159,162	69,538	71,221	16,156	8,019	9,197
Mar.	93,822	14,579	12,187	2,403	20,015	3,234	32,574	178,814	161,489	72,816	70,120	16,152	7,983	9,342
Apr.	93,311	14,794	12,364	2,311	20,315	3,233	32,499	178,826	161,262	74,167	68,666	15,927	8,213	9,352
May	93,587	14,837	13,110	2,260	21,044	3,260	31,972	180,071	162,287	76,334	n.a.	n.a.	8,407	9,377
June	94,000	15,777	13,572	2,257	21,136	3,294	31,938	181,975	163,990	76,868	n.a.	n.a.	8,410	9,575
July (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	164,765	n.a.	n.a.	n.a.	n.a.	n.a.
% of Total Assets														
June 30, 1983	51.7	8.7	7.5	1.2	11.6	1.8	17.6	100.0	90.1	42.2	n.a.	n.a.	4.6	5.3
Change during month	413	940	462	−3	92	34	−33	1,904	1,703	535	n.a.	n.a.	3	198

n.a.—not available. Est.—estimated.

[1] — Total deposit figures include checking, school, club and certain other accounts not shown separately.

[2] — Savings figures include MMDAs.

[3] — Market-linked figures include 91-day, 6-mo. MMCs, 30-mo. SSCs, and All Savers Certificates.

Source: NAMSB.

Savings nal

October 1983 O vings Banks

(SAMPLE)
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4520 EAST-WEST HIGHWAY
WASHINGTON, DC 20014

At State Conventions

New Hampshire Focus Is on Interstate Banking

New Yorkers Debate 'Turf' Proposals

Maine Keys on Legislation, Charter Conversion Issues

The ATM Movement

in fashion—here to stay

Consumer Lending Via Indirect Dealer Financing

Compensation For Commercial Loan Officers

For SBJ...'Retirement' After 64 Years

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Savings Bank Journal

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THE ATM MOVEMENT

IN FASHION—HERE TO STAY

Sharing could become the dominant mode of bank ATM operation, the author points out, as she details alternative ways of networking . . . looks at costs, benefits and pricing . . . and suggests where the movement may be headed.

In view of the developments over the past year or so, ATMs are here to stay. ATMs are decidedly in fashion.

- Witness the fact that at the end of 1982, ATM installations totaled 36,000. Just a few years ago—at the end of 1980—there were about half that number—only 18,500. ATMs were then installed.
- Witness the fact, too, that consumer use of ATMs has become commonplace. During 1982, consumer usage of ATMs showed stunning growth. As reflected in one measure—a survey of the top 50 largest shared ATM networks by *Bank Network News*—monthly transaction volume increased from 14.4 million in 1981 to a monthly rate of 33.8 million in 1982.

Consumers like ATMs and there is a decided and growing commitment by banks and others to install ATMs. Indeed, several estimates suggest that by 1985 the number of ATMs in the U.S. will reach the 84,000 level.

ATMs are surely here to stay, but I would be remiss if I did not revamp this statement to incorporate some qualifying issues.

ATMs are here to stay—but will all banks appropriately respond to the ATM movement? Are bankers losing their grip on the ATM movement? How, in fact, is the ATM movement evolving?

In this article, I will discuss these and other issues surrounding the ATM movement and some things you might think about when positioning your institution in today's financial services revolution.

Status of ATM Movement

It is extremely difficult to present a snapshot picture of the status of the ATM movement in the U.S. It is a movement that has followed an uncharted course, a movement in which players of all types—bank card associations, ATM hardware and software vendors, supermarkets and shopping mall owners, to name a few—are currently in a frenzied search for business opportunities. It is a movement which has culminated in a race for dominance in nationwide ATM interchange.

The ATM movement has also generated an environment which has enabled larger-sized banks to take early steps to position themselves for interstate banking in anticipation of the lifting of laws restricting geographic expansion.

by Helen Duffy
Principal
Duffy and Duffy
Consultants,
New York City

Specifically, here is how the ATM environment is shaping up:

- Probably about 40% of all ATMs are in a shared mode in the U.S., and this number is expected to increase. Interestingly, a recent study by Greenwich Research of 890 of the nation's largest banks indicated that nearly three-quarters of them favored joining a consortium to provide consumer services through joint ATM networks.
- There are presently about 150 shared ATM nets across the country.
- About half of the nation's banks participate in shared ATM networks. This figure, of course, will vary from region to region. One recent survey, for example, showed that only about 7% of the banks in New York, New Jersey, Connecticut and Pennsylvania participate in shared ATM networks.
- Our research shows that for the most part the generators of these shared ATM network systems are entities who perceive a business opportunity and a profit potential from network servicing. Our study covered 98 shared ATM systems and showed that a total of 56 systems—just over half—were owned and operated by single banks, while 11 were owned by nonbank third parties. Thus, 67 systems (single and third parties) were initiated on the basis of profit motivation. Fourteen of the ATM systems were jointly owned, some on a profit

basis and some on a nonprofit basis. Only 13 were clearly organized as nonprofit joint ventures.

It should be noted that while bank-managed shared ATM systems currently predominate, there is no assurance that this will be true in the future. As you know, Safeway and Publix Stores (a supermarket chain in Florida) have thrown their hats into the ATM network servicing arena, and other merchandisers, such as convenience stores and non-food stores, are weighing the merits of following suit.

- From the start, shared ATM systems on a geographic basis have more typically evolved in unit banking and limited branch banking states, and in states where the concentration of assets in terms of the five largest banks is low.
- There are more shared systems in states where smaller financial institutions proliferate. Sharing is a cost-justifiable way for small banks to provide ATM services to their customers and is also a means for small banks to maintain their competitive position with larger bank entities.
- There are fewer shared ATM systems in Connecticut, Maine, Massachusetts, Vermont and Rhode Island. These are states with statewide branching and states where the top five banks hold a high percentage of total assets (Conn.—61.5%; Me.—74%; Mass.—65.6%; Vt.—63.3%; R.I.—96.5%).

Possible Network Partners

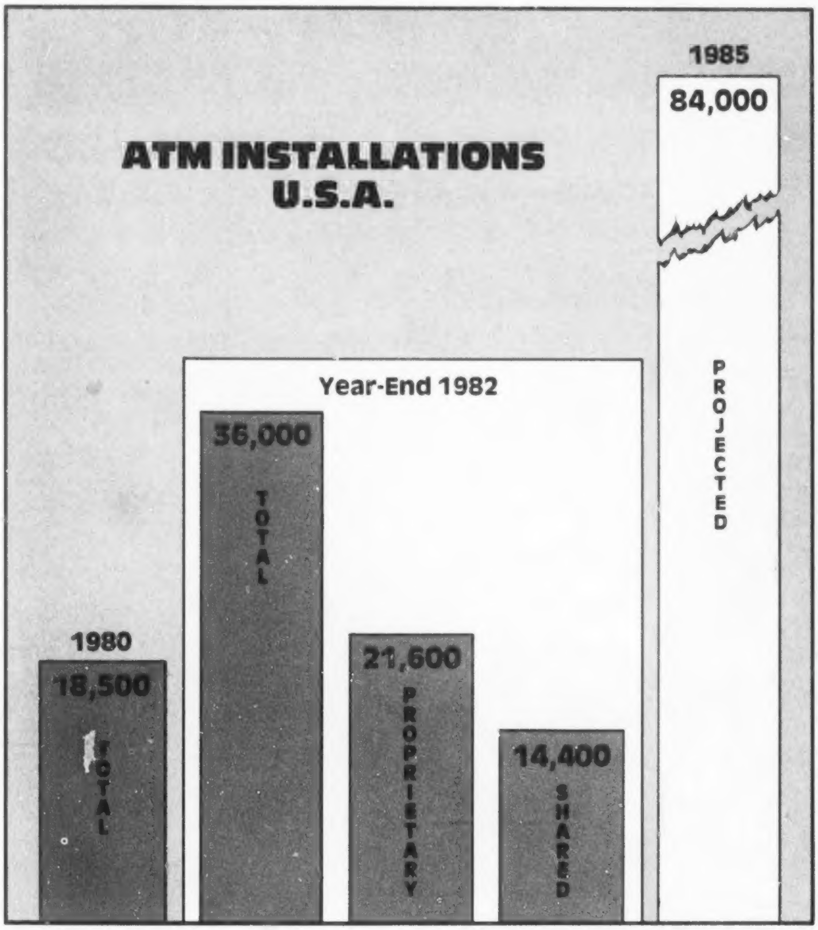
Valid arguments can be made for and against sharing. It must be underscored that sharing is a highly "individual" bank decision which must be preceded by identification of a bank's short- and long-term objectives, such as:

- Bank image;
- Potential for market share increase;
- Defensive positioning;
- Cost reduction;
- Reduced lobby traffic;
- ATM fee income; and
- Potential branch reduction.

Of course, the mix and importance of objective components will vary among banks by size, within specific markets and in statewide, limited and unit branch banking states.

Having identified goals and objectives, an evaluation of types of existing shared ATM nets is an invaluable exercise even if a bank decides to rule out sharing. The need to assess the nature of competition from a sharing competitor is essential. And for those banks whose objectives indicate sharing is desirable, an evaluation of potential sharing partners by type is critical.

Let me briefly identify some characteristics of alternative types of ATM network structures.



Proprietary networks: An outstanding example of a proprietary ATM network is that provided by Citicorp. This bank company operates its ATMs solely for its own customers. Sharing is not a contemplated question. The advantage to Citicorp and its customers is a completely flexible system which is under total control of the bank. Citicorp projects its image through its machines and its card, and it uses its ATM system to differentiate itself from other financial institutions. The advantages, thus, of a proprietary system are control of the system and the services delivered, and the fact that product identification is solely with one institution.

Disadvantages of operating a proprietary system for some banks are the cost of operating such systems, the long payback period and limitations stemming from a cardholder base derived from only one bank. By itself, a bank simply may not have enough cards to generate necessary support volume. Citicorp, of course, does not experience these limitations. It generates a phenomenal number of transactions. Last year, at its 570 ATMs the bank had over 50 million financial transactions.

Proprietary/wholesale ATM network: To generate additional volume, to expand geographic reach and enhance profitability, a proprietary ATM system might be opened up for sharing to other depository institutions on a wholesale basis. This approach is much akin to correspondent servicing. In addition to sharing, the owner of the proprietary system might choose to issue cards on behalf of the correspondent bank and to process ATM transactions. The owner of the proprietary system essentially retains control over its ATM system and continues to project its image with its customers. Respondent banks, of course, lose a degree of control over their customers and possibly over the range of services they can market. But under this arrangement, respondent banks can offer the ATM service without bearing the burden of systems costs.

Franchise/proprietary networks:

There are a number of ways a franchise proprietary ATM service can be put together. One example: An institution with a proprietary ATM net may offer to franchise its product to institutions in selected markets and to handle the interchange among franchisee users. Under this arrangement, customers of other institutions do not gain access to the lead bank's ATMs.

Joint venture consortium ATM systems: Joint venture systems may be organized for profit or not for profit. Joint venture members are the determiners of the rules governing the ATM system. Through these rules, members control their ATM system and services. Such rules may involve which cards (bank and nonbank) are permitted to access the system, whether or not an ATM can be directly linked to the shared system switch or whether it must go through the switch of the ATM owner to be forwarded—in the case of a "not-us" transaction—to the joint venture switch.

These various configurations make a considerable difference in cost/benefit analysis. Improperly structured rules could, for example, set the joint venture organization itself in competition with its own members.

Third-party-operated nets: The range of services offered by third-party nets vary and can include data base management, switching, card services, periodic reports, etc. Third parties are most interested in generating fee income from selling switching and processing capabilities to banks. Terms of the service are set by the third parties with, of course, little or no voice by bank users.

While third-party ATM nets are the choice of some banks—typically smaller sized institutions—concerns have been voiced in the banking industry that an alliance with third-party servicers might result in an erosion of the role of banks in the future national payment system. Such critics point to the fact that some third-party nets—eager to earn fee income—are motivated to open up ATM sharing to nonbank entities, thereby resulting in undesirable or premature competition.

Cost-Benefit Considerations

Considerable research and analysis are necessary before a bank should choose to remain a stand-alone proprietary ATM system or decide to join a shared ATM network. An important component of this necessary research involves some cost-benefit analysis. Before discussing this point, a basic tenet of shared ATM systems must be understood. To encourage the installation of ATMs by participants in shared ATM networks, an interchange fee is paid to the owner of the ATM each time a "foreign" cardholder uses the machine. In other words, if a customer from Bank B uses Bank A's machine, Bank B—the card issuer—pays Bank A an interchange fee.

Characteristics of ATM Networks

Type of Network Format	Flexibility	Control	Larger Geographic Reach	Higher Cost	Lower Cost
Proprietary	YES	YES	NO	YES	NO
Proprietary — Wholesale					
...for Correspondent	YES	YES	YES	NO	YES
...for Respondent	NO	NO	YES	NO	YES
Proprietary — Franchise	NO	YES	NO	NO	YES
Joint-Venture Consortiums	YES	YES	YES	NO	YES
Third-Party Operated Nets	NO	NO	YES	NO	YES

In this kind of environment, a bank may perceive that an opportunity exists to select an appropriate ATM site and thereby generate a profit from foreign transactions. A bank may, after examination and study, conclude no such opportunities exist and may choose to participate in the shared system, throwing in for sharing whatever ATMs it currently has and opting to pay to use the ATMs owned by others on a shared basis.

Banks, thus, position themselves in shared ATM environments by determining if they should adopt:

- A net buyer's strategy (that is, these banks will buy ATM transactions for sale to their customers);
- A net seller's strategy (that is, they will purchase high volume ATM sites to sell transactions to others); or
- A break-even strategy (selling enough transactions to offset the cost of buying transactions from others).

Choosing among these various strategies is a vital component of your cost-benefit analysis. It is an exercise that is essential to successful participation in a shared ATM program.

When it comes to pricing and fee schedules associated with participation in a shared regional network, there are no set standards that prevail everywhere. In essence, the concept of "sharing" is breaking new ground.

In any event, fee schedules vary widely. For example, upfront one-time participation fees range all over the place, from a $500 minimum in one Midwest system to $22,500 in a South Atlantic system.

Interchange fees, say for cash withdrawals, likewise range widely, from as low as 10¢ per transaction to as high as 60¢ or more. While network pricing has not yet developed its own universal logic, this is not to suggest that you ignore the "pricing" factor. I recommend you evaluate fee schedules carefully—as closely as you would the systems capabilities of your prospective shared ATM network partner.

I have long held the position that the banking industry "missed the boat" by not offering a check guarantee service at the point of sale a decade ago. By doing so banks could have protected their positioning today at the POS. Unfortunately, the necessary cooperation among bankers to bring this about was absent.

If bankers had chosen to offer check guarantee, it would be today as commonplace a service here as it is in Europe. Evidence that merchants were in need of the service is shown in the widespread acceptance by Delaware merchants of the check guarantee plan offered by the Wilmington (Del.) Savings Fund Society since 1972.

Alas, bankers simply have put off too long the issue of POS payments. And now merchants with their growing systems capability may well challenge bankers by installing their own POS direct debit systems, and quite possibly may turn the tables around and insist on bankers paying them a transaction fee.

One might ask, "Does it matter if merchants do just that—set up a POS system and charge banks a fee?"

It certainly does change the cost-benefit equation. Banks whose strategy in an ATM environment is to be "net sellers" or "break-even" participants may well have to recalculate the economics of their strategy. If direct debit POS takes off, banks may well experience a lower volume of transactions at their ATMs—particularly at off-site high-volume ATMs. Stand-alone proprietary nets are also likely to experience a drop in ATM transactions and their per transaction costs could well increase. And at the same time banks will be paying transaction fees to merchants.

ATMs and Home Banking

Whether operators of shared ATM systems will offer home banking services is not all that clear today. Several—Metroteller and MPACT come to mind—are moving in this direction. It is quite possible, however, that the "switches" of the shared ATM networks will be used as gateways to home banking servicers.

In any event, I do believe that smaller institutions should today begin to factor home banking into their overall strategies. I think there is ample room for small banks to maneuver in this arena and to be among the early participants in it, but only if they do some forward planning. Along these lines, my favorite small bank success story involves a highly innovative German bank called "Verbraucherbank." Because of creative management decisions initiated in the mid-1970s, this small bank is surprisingly today a leader in a videotex pilot operated by the German Federal Post Office. The pilot includes five other banks, including Germany's largest, the Deutsche Bank.

When the small German bank entered the consumer banking market in the 1970s it made it a policy to offer branch-bank personal banking services only if they were fully automated and only if they were customer initiated. The strategy was to offer these services as an intermediate stage leading to home banking.

The service components of this bank's self-service program include an ATM and a computer terminal, both of which are used by customers in branch locations during banking hours. The computer terminal is used to receive account information, to make payments, to bring up statement information on the screen, to order Eurocheques (the instrument used in Europe's check guarantee program), to display bills to be paid, etc. Attached to the computer is a printer to provide a hard copy of the bank statement if the customer so de-

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sires. Interestingly, after banking hours, the computer terminal is rolled up to a slot in the ATM vestibule in such a position that the keyboard is accessible to the customer, enabling him or her to use this service 24 hours a day.

When I talked to the managing director of this bank, he emphasized that his goal was to condition customers to technical self-service and, in essence, prepare them for home banking. He estimates that by the end of the 1980s, 50% of his customers will be doing their banking in the home.

Along these lines, in another article I did last fall, I noted that Macrotel—a subsidiary of Empire of America, formerly the Erie Savings Bank—was investigating a similar project with the Genesys Group of Ottawa, Canada. The group is a major software supplier.

According to the Genesys Group project director, an approach was proposed in which a minibranch of a bank might install an ATM for, say, balance inquiry, cash withdrawal and deposit taking. Alongside the ATM would be three or four videotex terminals which customers could use to transact any range of services a bank chooses to provide, including bill payment, statement inquiry, CD purchases, etc. This is conceived as a sensible means of putting customers through a self-service learning curve.

Joining Videotex and ATMs

Mating videotex terminals with ATMs is a viable approach and could be cost-effective in that the videotex terminals cost only about $2,000. I might add a further observation here—in a shared ATM environment this approach could enhance the image of a bank with its customers because of the ability to offer a wide set of services. The bank would not be restricted to the range of services made available in a shared ATM environment.

I noted in my opening comments that the ATM movement is pushing ahead in an uncharted course. I have heard many a banker say the lack of definitive structure makes it nearly impossible to develop sensible ATM/EFT strategies. I disagree. I believe enough information is out there—if accurately assessed and analyzed—to lead to effective strategies and contingency plans.

Most important, however, is determining what kind of a bank, what kind of financial institution you wish to be and getting your back-office operation effectively organized in order to support the service deliveries of your choice. **(END)**

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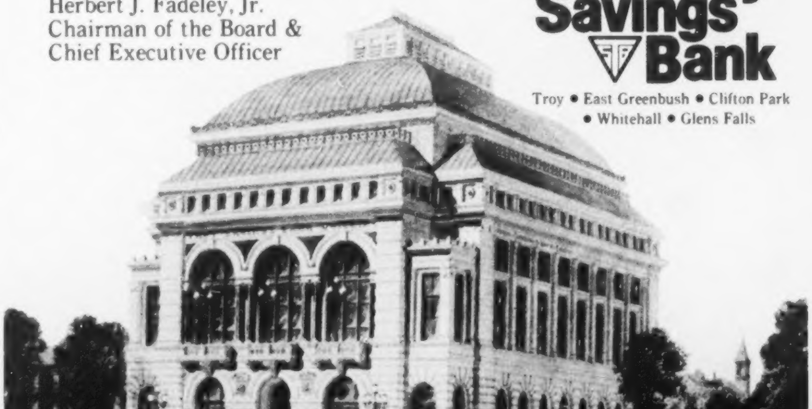


national mortgage markets

Another secondary market player. Sears, Roebuck and Co., Chicago, recently invaded financial industry turf again when it announced formation of a new mortgage conduit company that will buy single-family mortgages and package them into securities for sale to private investors.

The nation's largest retailer said it hopes to purchase between $750 million and $1 billion in mortgage loans in 1984, and sell a like amount in conventional mortgage-backed securities.

"We'll be exactly like a private sector Fannie Mae or Freddie Mac," said Charles E. Reed, president of the new company, called Sears Mortgage Securities Corp., which resulted from a reorganization of another Sears unit, PMI Mortgage Group.

Sears officials said the company initially will purchase only fixed-rate mortgages, and then begin purchasing a limited variety of adjustable rate mortgages in the first quarter of next year. It will probably buy loans up to $500,000, compared to the $108,300 limit on loans sold to Freddie Mac and Fannie Mae.

Reed said seller-servicer guidelines will be announced by the end of this month.

The Sears' mortgage securities, to be called Sears Mortgage Participation Certificates, will be sold at first to thrifts and institutional investors. However, Sears will look to individual investors in the "near term," Reed said.

Sears, which already has taken several steps into the financial market, will utilize several of its subsidiaries to operate the new conduit company. For example, it will sell the mortgage securities through Dean Witter Reynolds, a Sears division, and it will buy mortgages from Allstate Savings and Loan Association and Allstate Enterprises Mortgage Corp., both subsidiaries.

Secondary market explosion. The volume of secondary market activity could surge to as much as $450 billion a year by 1990, reflecting a steep rise in mortgage originations, it was reported recently.

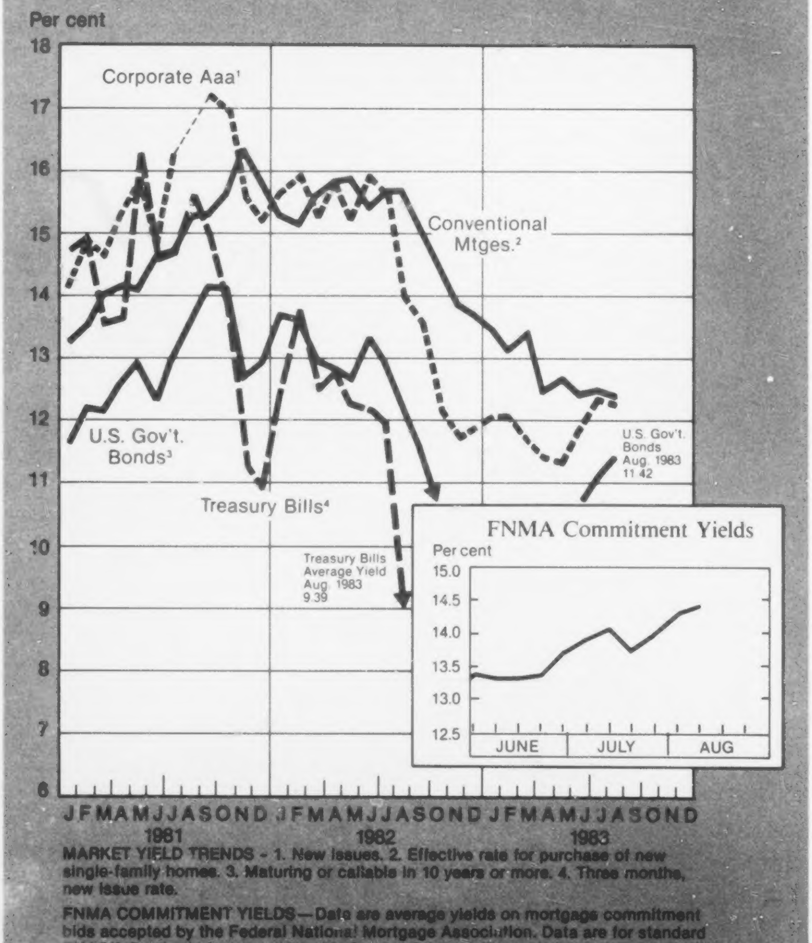
Analysts told the *American Banker*, a daily financial newspaper, that mortgage originations, which have declined in recent years because of high interest rates and the recession, should spring back by 1990 and average between $350 billion to $600 billion. As much as three-quarters of these will be sold.

Meanwhile, secondary market volume has already taken off during the past decade: in 1982, $99.7 billion of new and seasoned mortgage loans were sold in the secondary market. That compares to $14.2 billion in 1970.

The figures are especially impressive in light of the decline in mortgage originations in 1982 to $94.9 billion in new mortgages down from $98.2 billion the previous year and a record $187.1 billion in 1979.

Secondary market growth is attributed to thrifts' increased secondary market activities, especially because of the unprofitability of holding fixed-rate loans in portfolio; increased mortgage activity by commercial banks and mortgage bankers; and expanded programs offered by Freddie Mac and Fannie Mae.

SBJ Money and Capital Market Yield Trends



MARKET YIELD TRENDS - 1. New issues. 2. Effective rate for purchase of new single-family homes. 3. Maturing or callable in 10 years or more. 4. Three months, new issue rate.

FNMA COMMITMENT YIELDS—Data are average yields on mortgage commitment bids accepted by the Federal National Mortgage Association. Data are for standard FHA/VA fixed-rate loans and provide for mandatory delivery. Yields are gross of 3/8% servicing fee and assume 30-year fixed-rate mortgages.

Federal Charter—

remain under state supervision.

In other federal charter news, the $788 million-assets Neworld Bank for Savings, Boston, Mass., recently won approval from the state Board of Bank Incorporation to convert to a federal charter. Originally, the state's banking commissioner told the bank it had not shown a "clear public need."

Supplemental materials subsequently filed by the bank emphasized the expanded statewide branching opportunities available with a federal charter. In approving the charter conversion request, the commissioner said branching was "the clear public advantage."

savings bank statistics

Deposit trends continued weak in August ■ Additions to surplus accounts remain at modest levels.

Prepared by NAMSB's Research Department • Jack Rubinson, Director

NET CHANGE IN REGULAR DEPOSITS IN SAVINGS BANKS

(Amounts in millions of dollars)

Period	Monthly and Annually			
	Excluding Interest		Including Interest	
	Amount	%	Amount	%
Annually				
1979	1	−6,962	−4.93	1.88
1980	−4,863	−3.38	6,851	4.76
1981	−13,759	−9.09	757	.50
1982	−10,438	−6.82	4,431	2.90
Monthly				
1983				
Mar.	245	.16	1,996	1.27
Apr.	−778	−.49	58	.04
May	163	.10	1,080	.68
June	56	.04	1,733	1.08
July	−202	−.12	666	.41
Aug. (Est.)	−350	−.22	550	.34

State	Change by States							
	July 1983				July 1982			
	Excluding Interest		Including Interest		Excluding Interest		Including Interest	
	Amount	%	Amount	%	Amount	%	Amount	%
Conn.	−18	−.11	108	.66	−91	−.62	29	.20
Me.	18	.60	38	1.29	10	.36	30	1.15
Md.	−14	−.73	−4	−.20	−18	−1.01	−8	−.46
Mass.	62	.26	243	1.02	−66	−.31	99	.46
N.H.	17	.60	31	1.09	−2	−.07	20	.77
N.J.	8	.08	91	.94	−32	−.34	51	.54
N.Y.	−263	−.32	48	.06	−809	−1.03	−491	−.63
−City	−211	−.38	−26	−.05	−543	−1.06	−368	−.72
−Upstate	−52	−.20	74	.28	−267	−.97	−123	−.45
Penn.	−72	−.52	11	.08	−22	−.17	67	.52
R.I.	−15	−.72	−4	−.19	−6	−.32	5	.28
Vt.	−2	−.21	1	.18	1	.11	6	.64
Wash.	94	2.36	115	2.90	−24	−.73	−2	−.06
TOTAL	−202	−.12	666	.41	−1,066	−.70	−198	−.13

Note: Regular deposits excludes special purpose accounts such as checking, school and club. Total includes states not shown separately.
Est.—estimated.

ASSETS AND LIABILITIES OF ALL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mtges.	Mtge.-backed	Investments				Other assets	Total assets-total liabilities & gen. res. accts.	Deposits				Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & Local Govt.	Corp. bonds	Corp. stocks			Total[1]	Savings[2]	Time			
											Market-linked[3]	Other		
Year-end														
1979	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	34,996	47,951	5,873	11,525
1980	99,865	13,849	8,949	2,390	21,209	4,224	21,078	171,564	153,501	53,971	62,981	34,464	6,694	11,368
1981	99,997	13,911	9,810	2,288	20,249	3,630	25,843	175,728	155,110	49,425	80,387	23,192	10,632	9,986
Month-end														
1982														
Aug.	94,498	13,778	9,675	2,201	18,816	3,343	30,591	172,901	152,014	46,901	84,735	18,100	11,671	9,216
Sept.	94,382	13,740	9,404	2,191	18,839	3,266	31,667	173,487	153,089	47,496	85,561	17,738	11,166	9,232
Oct.	94,261	13,894	9,219	2,505	18,488	3,217	31,324	172,908	152,210	48,520	83,775	17,633	11,556	9,141
Nov.	94,017	13,950	9,456	2,496	18,598	3,205	30,566	172,287	151,304	49,208	81,997	17,962	11,893	9,089
Dec.	94,091	14,055	9,743	2,470	18,951	3,155	31,731	174,197	155,196	56,408	79,703	16,666	9,766	9,235
1983														
Jan.	93,944	14,064	10,248	2,446	19,193	3,173	31,658	174,726	157,113	64,692	74,245	15,939	8,418	9,196
Feb.	93,607	14,261	11,081	2,440	19,430	3,214	32,346	176,378	159,162	69,538	71,221	16,156	8,019	9,197
Mar.	93,822	14,579	12,187	2,403	20,015	3,234	32,574	178,814	161,489	72,816	70,120	16,152	7,983	9,342
Apr.	93,311	14,794	12,364	2,311	20,315	3,233	32,499	178,826	161,262	74,167	68,666	15,927	8,213	9,352
May	93,587	14,837	13,110	2,260	21,044	3,260	31,972	180,071	162,287	76,334	n.a.	n.a.	8,407	9,377
June	94,000	15,777	13,572	2,257	21,136	3,294	31,938	181,975	163,990	76,868	n.a.	n.a.	8,410	9,575
July	93,998	16,068	13,931	2,248	21,236	3,363	31,978	182,822	164,848	76,826	n.a.	n.a.	8,290	9,684
Aug. (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	165,373	n.a.	n.a.	n.a.	n.a.	n.a.
% of Total Assets														
July 31, 1983	51.4	8.8	7.6	1.2	11.6	1.8	17.5	100.0	90.2	42.0	n.a.	n.a.	4.5	5.3
Change during month	−68	291	359	−9	100	69	44	786	825	−40	n.a.	n.a.	−145	106

n.a.—not available. Est.—estimated.

[1]— Total deposit figures include checking, school, club and certain other accounts not shown separately.

[2]— Savings figures include MMDAs.

[3]— Market-linked figures include 91-day, 6-mo. MMCs,·30-mo. SSCs, and All Savers Certificates.

Source: NAMSB.

Table 1

Income and Expenses of Savings Banks, by States, 1982

(in millions of dollars)

Item	Total	New York	Mass.	Conn.	Pa.	N.J.	Wash.	Me.	N.H.	Md.	R.I.	All other states
Total operating income	16,976	8,152	2,573	1,823	1,422	1,062	489	327	330	230	224	345
Interest and dividends on securities	4,502	2,486	769	293	349	303	46	68	50	35	40	64
U.S. Government and agency obligations	2,292†	1,178	n.a.	144	185	188	39	43	33	24	31	38
Other securities	2,210†	1,308	n.a.	149	164	114	7	25	17	11	9	26
Net interest and discount on loans	11,146	5,033	1,749	1,423	894	589	378	243	263	169	164	242
Mortgage loans	8,876†	4,155	n.a.	1,126	619	462	318	193	197	107	124	200
Other loans	2,270†	877	n.a.	297	275	127	59	49	66	62	40	41
Other operating income	1,328	633	56	107	179	170	65	16	17	26	20	40
Operating expenses	3,669	1,810	497	364	299	213	170	74	77	52	39	74
Net operating income after expenses	13,307	6,342	2,076	1,459	1,122	848	318	253	253	178	185	271
Interest paid depositors	14,799	7,394	2,087	1,534	1,319	942	363	256	259	171	184	291
Net operating income after expenses and interest	−1,492	−1,052	−11	−75	−196	−93	−44	−3	−6	7	1	−20
Net realized gains or losses on asset transactions	211	105	−16	36	59	15	6	−2	1	4	*	3
Taxes	−19	33	6	−13	−12	−20	−10	−2	−2	3	1	−2
Federal	−122	−29	−29	−14	−13	−20	−10	−2	−3	2	−2	−3
State, local and franchise	104	63	34	*	1	*	*	*	2	1	2	1
Retained earnings	−1,263	−980	−32	−26	−125	−58	−29	−3	−3	8	1	−15

n.a.—not available.
*Less than $500,000.
†Partly estimated; separate data for Massachusetts are not available.
SOURCE: NAMSB.

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Table 2

Income and Expense Ratios for Savings Banks, by States, 1982

(in per cent)

Item	Total	New York	Mass.	Conn.	Pa.	N.J.	Wash.	Me.	N.H.	Md.	R.I.	All other states
Ratios to total assets:												
Total operating income	9.86	9.36	10.44	10.67	9.56	9.97	11.07	10.71	11.02	10.85	10.90	10.80
Total operating expenses	2.13	2.08	2.01	2.13	2.01	2.00	3.86	2.42	2.57	2.43	1.91	2.30
Interest paid depositors	8.59	8.49	8.47	8.97	8.86	8.84	8.21	8.38	8.65	8.08	8.95	9.12
Retained earnings	-.73	-1.13	-.13	-.15	-.84	-.55	-.65	-.09	-.11	.38	.03	-.4[illegible]
Ratios to total deposits:												
Interest paid depositors	9.71	9.53	9.62	10.18	9.99	9.78	10.56	9.53	9.89	9.13	9.98	10.19
Retained earnings	-.83	-1.26	-.15	-.17	-.95	-.61	-.83	-.10	-.13	.43	.03	-.53
Ratios to securities held:												
Interest on U.S. Government and agency securities	9.56†	8.96	n.a.	11.66	10.86	9.85	9.44	12.06	11.01	11.37	11.14	10.92
Interest and dividends on other securities	8.47†	8.51	n.a.	9.08	7.57	8.61	7.89	9.18	8.94	8.47	9.29	8.22
Interest and dividends on total securities	9.00†	8.72	n.a.	10.19	9.02	9.34	9.17	10.83	10.19	10.29	10.67	9.65
Ratio to mortgage loans:												
Net interest and discount on mortgage loans	9.25†	8.75	n.a.	10.36	9.26	9.10	10.34	10.35	10.80	9.92	10.18	10.70

n.a.—not available
†Ratio computed on basis of data from states other than Massachusetts
NOTE: Ratios are computed from data in Table 1 and average asset and liability figures
SOURCE: NAMSB

Table 3

Income and Expense Ratios for Savings Banks, by Deposit Size, 1982

(in per cent)

		Deposit size (in millions of dollars)							
Item	Total	Less than 25.0	25.0 to 49.9	50.0 to 99.9	100.0 to 249.9	250.0 to 499.9	500.0 to 999.9	1,000.0 to 1,999.9	2,000.0 or over
Ratios to total assets:									
Total operating income	9.86	11.06	10.69	10.33	10.70	10.10	9.96	9.54	9.48
Total operating expenses	2.13	2.68	2.02	1.91	2.02	2.04	1.96	2.05	2.34
Interest paid depositors	8.59	8.68	8.59	8.54	8.95	8.70	8.71	8.52	8.42
Retained earnings	-.73	-.23	-.03	-.03	-.23	-.41	-.55	-.91	-1.13
Ratios to total deposits:									
Interest paid depositors	9.71	9.60	9.52	9.49	9.95	9.76	9.69	9.50	9.67
Retained earnings	-.83	-.26	-.04	-.04	-.25	-.46	-.61	-1.01	-1.30
Ratios to securities held:									
Interest on U.S. Government and agency securities†	9.56	10.92	12.10	11.07	10.86	9.88	9.94	9.07	9.18
Interest and dividends on other securities†	8.47	12.20	9.63	9.01	9.46	8.67	8.67	8.60	8.13
Interest and dividends on total securities†	9.00	11.41	10.94	10.14	10.13	9.34	9.28	8.89	8.56
Ratio to mortgage loans:									
Net interest and discount on mortgage loans†	9.25	10.48	10.08	10.20	10.35	9.85	9.40	9.10	8.72

†Ratios are computed on basis of data from states other than Massachusetts.
SOURCE: NAMSB.